Par Pacific Holdings, Inc.
Second Quarter 2023 Earnings Conference Call

Corporate Participants

* Ashimi Patel, Director of Investor Relations
* William C. Pate, CEO & Director
* William Monteleone, President & Director
* Shawn Flores, SVP & CFO

Conference Call Participants

* Alejandra Magana, JPMorgan Chase & Co, Research Division - Analyst
* James Robert Larkin, Piper Sandler & Co., Research Division - Research Analyst
* Jason Daniel Gabelman, TD Cowen, Research Division - Director & Analyst
* Manav Gupta, UBS Investment Bank, Research Division - Analyst
* Matthew Robert Lovseth Blair, Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Managing Director of Refiners, Chemicals & Renewable Fuels Research
* Neil Singhvi Mehta, Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst

Presentation

Operator [1]

Good day, and welcome to the Par Pacific Second Quarter 2023 Earnings Call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Ashimi Patel, Director of Investor Relations. Please go ahead.

Ashimi Patel, Par Pacific Holdings, Inc. - Director of Investor Relations [2]

Thank you, Sarah. Welcome to Par Pacific's Second Quarter Earnings Conference Call. Joining me today are William Pate, Chief Executive Officer; Will Monteleone, President; Shawn Flores, SVP and Chief Financial Officer; and Richard Creamer, EVP of Refining and Logistics.

Before we begin, note that our comments today may include forward-looking statements. Any forward-looking statements are subject to change and are not guarantees of future performance or events. They are subject to risks and uncertainties, and actual results may differ materially from these forward-looking statements.

Accordingly, investors should not place undue reliance on forward-looking statements, and we disclaim any obligation to update or revise them. I refer you to our investor presentation on our website and to our filings with the SEC for non-GAAP reconciliations and additional information. I'll now turn the call over to our Chief Executive Officer, William Pate.

William C. Pate, Par Pacific Holdings, Inc. - CEO & Director [3]

Thank you, Ashimi, and good morning to our conference call participants. This quarter was an exciting period in our company's growth. We made progress on many strategic objectives and reported excellent financial results. Second quarter adjusted EBITDA was $151 million and adjusted net income was $1.73 per share. While the market continues to be supportive of our business, our financial results were attributable to solid commercial and operational execution at each of our business units.

We closed the Billings acquisition on June 1 and welcomed the Par Montana team to our organization. Initial performance has been very strong with June operational and financial results well above our acquisition forecast. As previously noted, success in Billings depends on improving reliability. Our confidence is growing that the Billings refinery will exceed our acquisition case, which assumes 50,000 barrels per day of throughput. The Par Montana team has identified numerous projects to improve mechanical integrity, utility and infrastructure improvements and other important elements of reliability. These are generally small capital, high-return projects. The June results demonstrate that improved reliability drives significant site profitability.

We also made considerable progress on our renewables initiative. The Hawaii distillate hydrotreater conversion project is progressing well, and we continue to advance engineering on the Tacoma SAF / green hydrogen project.

The third quarter is shaping up to be another strong quarter. Global inventories tightened in July due to solid demand for refined products. As a result, market cracks have been improving throughout the first half of this quarter. We're also benefiting from growing local demand. Our retail units posted exceptional same-store sales growth during the second quarter, illustrating the strength of our franchises and overall market growth.

June 30 liquidity of $464 million reflects a strong capital structure. During the quarter, we were able to fund the Billings acquisition with cash on hand and availability from our new asset-backed loan facility. Since the closing, we have steadily reduced our debt and rebuilt our liquidity. Before Will covers our commercial and operational performance in more detail, I also want to note that the Board of Directors has authorized management to repurchase up to $250 million of common stock. At this stage in our company's evolution, we will use this authority opportunistically as we have sufficient liquidity to achieve our ambitious growth objectives while also repurchasing common stock at attractive prices.

I'll now turn the call over to Will.

William Monteleone, Par Pacific Holdings, Inc. - President & Director [4]
Thank you, Bill. The Refining and Logistics business units delivered a strong quarter, executing planned maintenance efficiently and achieving excellent throughput. The combined throughput of Hawaii, Washington and Wyoming resulted in a record quarterly throughput of 142,000 barrels per day. In addition, the Billings team delivered a strong initial contribution with total crude charge of nearly 63,000 barrels per day for the month of June.

In Hawaii, second quarter throughput increased to 84,000 barrels per day and production costs were $4.33 per barrel. The Singapore Index averaged $13.72 per barrel during the quarter and our landed crude differential was $5.29, slightly better than our guidance. This resulted in a combined index of $8.43 per barrel. Capture to the combined index was approximately 143%, reflecting continued price lag benefit in a falling crude price environment, favorable freight rates, low levels of backwardation and a modest product crack hedge benefit.

In Washington, second quarter throughput was 41,000 barrels per day and production costs were $3.98 per barrel. The PNW Index averaged $25 per barrel during the quarter. Capture declined to 25%, reflecting a greater than $5 per barrel tightening of WCS crude differentials during the period as well as asphalt and VGO weakness.

In Wyoming, second quarter throughput was 17,000 barrels per day and production costs were $8.30 per barrel, slightly elevated due to minor planned maintenance. The U.S. Gulf Coast index was $21.65 per barrel during the quarter. Wyoming capture was approximately 95%, including a negative FIFO impact of $3 million, but partially offset by Rockies regional strength.

And finally, Montana production costs totaled $8.07 per barrel, reflecting the strong June throughput. Like our Wyoming location, we plan to use the U.S. Gulf Coast index as a benchmark for the Montana location. That index averaged $23.20 over the course of June and capture was 134%, reflecting strong regional Rockies differentials to the Gulf Coast. Like Wyoming, Montana capture is highly seasonal.

Looking ahead to the third quarter, we expect Hawaii to run between 83,000 and 88,000 barrels per day; Montana between 52,000 and 57,000; Washington between 40,000 and 42,000; and Wyoming between 17,000 and 19,000 barrels per day. Due to unplanned downtime during July of our Hawaii reformer unit, we expect a margin impact of $1.50 to $2 per barrel. We expect our third quarter Hawaii crude differential to average between $5 and $5.50 per barrel, approximately flat to the prior quarter. In total, we expect system-wide throughput of approximately 200,000 barrels per day, or 92% utilization.

The Retail segment generated another strong financial quarter with growing fuel volumes and expanding merchandise revenues. Second quarter same store sales fuel volumes and merchandise revenue ramped up nicely, growing 11% and 12%, respectively, versus the 2022 levels. These same store sales reflect rebounding Hawaii economic activity, as well as the growing strength of our Hele and nomnon brands.

The successful execution of the Billings transaction reflects months of planning and coordination. I'd like to congratulate and thank the entire Par Montana and Par Pacific team for driving a well-planned operational integration. We pride ourselves on crisp integrations, and this was another great team effort. Our initial time on the ground in Montana has largely confirmed our initial assessment. We believe we will optimize operations and achieve the initial synergies as well as consistently move throughput above our baseline.

With respect to our renewables initiative, in July, we began trial runs for our Tacoma coprocessing operation. The less than $2 million project reduces our RVO exposure, and we expect a less than 1-year payback period. We have started fabrication on our previously announced Hawaii SAF project, and we also continue to dedicate time and resources to scoping a larger, co-located green hydrogen and SAF facility at our Tacoma refinery. We expect to make a final investment decision on this project early next year.

I will now turn it over to Shawn to review our financial results.

Shawn Flores, Par Pacific Holdings, Inc. - Senior VP & CFO [5]
Thank you, Will. Second quarter adjusted EBITDA and adjusted earnings were $151 million and $106 million, or $1.73 per share.

The refining segment reported adjusted EBITDA of $129 million in the second quarter, compared to $153 million in the first quarter. We got off to a strong start in Billings, generating adjusted EBITDA of $43 million during the first month of our ownership. Our second quarter refining results included a $12 million benefit in Hawaii for price lag and product crack hedging, partially offset by a negative FIFO impact in Wyoming of $3 million. We have continued our product crack hedging framework in Hawaii with approximately 25% of our third quarter sales hedged at a $15 per barrel premium to Brent.

Our Logistics segment reported adjusted EBITDA of $26 million in the second quarter compared to $18 million in the first quarter. The sequential improvement was driven by increased marine throughput in Hawaii and Washington and a $3 million contribution in June from the Montana Logistics System.

The Retail segment reported adjusted EBITDA of $18 million in the second quarter compared to $17 million in the first quarter. Through the first half of the year, our retail business has generated $35 million in adjusted EBITDA compared to $15 million during the first half of last year. As Will mentioned, our strong retail earnings were supported by growing same store sale volumes and merchandise revenue.

Corporate expenses in adjusted EBITDA were $22 million in the second quarter compared to $19 million in the first quarter. Our second quarter expenses include $3 million related to our renewables development and other onetime costs. As we advance engineering on our renewables project in Tacoma, we expect to incur an additional $2 million to $3 million per quarter above our baseline corporate expense guidance of $17 million to $19 million.

Cash provided by operations during the second quarter totaled $173 million. Net changes in working capital resulted in a cash inflow of $88 million, primarily driven by the initial build in trade payables at Par Montana. Cash outflows from investing activities totaled $624 million. This includes $280 million for the remaining Billings base purchase price and $328 million for the Billings hydrocarbon inventory and other working capital items. Cash outflows from financing activities totaled $20 million in the quarter, driven by repayments of borrowings on our Hawaii deferred financing facility.

Second quarter ending liquidity was $464 million, including $191 million in cash and $273 million in availability. Concurrent with the Billings acquisition, we completed the upsize of our asset-based loan facility, increasing total bank commitments from $150 million to $600 million. Strong cash flow from operations during the quarter allowed us to pay down the ABL from $215 million on June 1 to $41 million on June 30. Total gross debt was $595 million at the end of the second quarter, an increase of just $45 million from our pre-acquisition levels.

And lastly, with the Billings acquisition closed, we are increasing our 2023 CapEx guidance by $20 million to a total of $90 million to $100 million for the full year.

This concludes our prepared remarks. Operator, we'll turn it to you for Q&A.

Question And Answer

Operator [1]

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Matthew Blair with TPH.

Matthew Robert Lovseth Blair, Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Managing Director of Refiners, Chemicals & Renewable Fuels Research [2]

Bill, Will and Shawn, the initial contribution from the Billings refinery appeared quite strong, which I suppose isn't too unusual for the June period. But could you walk through the major drivers for us? And were there any one-time benefits that we should be aware of? And then finally, when do you think the next major turnaround will be scheduled for Billings?

William Monteleone, Par Pacific Holdings, Inc. - President & Director [3]

Sure, Matt. This is Will. I'll take the operational aspects and then let Shawn address some of the financial components. I would say overall, the biggest drivers of strong throughputs, again, I think we're able to really run at max rates through the crude unit and the FCC we were able to feed additional crude into that unit. So again, I think we saw strong performance from the team there right out of the gate. I think we are also in above mid-cycle margin environment for both Gulf Coast cracks as well as the Rockies regional differentials and then ultimately, the feedstock inputs for Canadian heavy barrels as well as the light barrels that we run were, I would say, in line with our acquisition model. So again, I think it was really a combination of strong operations from the team and above mid-cycle environment.

With respect to the turnarounds, we do have planned turnaround activity in 2024. I'd expect it to be about a 30-day outage. I think one thing I'd point out for you in Billings that's unique is, again, even when we have certain units down, we're unlikely to take total crude charge down to zero. So again, we're able to feed crude to the CAT unit. And so ultimately, it's going to be a little bit different than our other facilities where we have plant-wide outages. Shawn, do you want to take any one-time aspects on financials?

Shawn Flores, Par Pacific Holdings, Inc. - Senior VP & CFO [4]
Yes. I think Will hit on most of the financial components. Matthew, I know you track the Rockies market pretty closely. I think we saw both Rockies gas and diesel peak in June, both were very favorable to the Gulf Coast. They remain strong, but likely have peaked in June.

Matthew Robert Lovseth Blair, Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - Managing Director of Refiners, Chemicals & Renewable Fuels Research [5]
Great. And then -- the next question might be for Bill. You talked about raising the buyback authorization to $250 million. You mentioned it'd be an opportunistic approach. Could you talk about your current opportunity set and how you view it between M&A, buybacks and then potential dividends?

William C. Pate, Par Pacific Holdings, Inc. - CEO & Director [6]
Sure, Matt. We obviously focus on our avenues of growth first. And when we think about growth, as Will mentioned, we think there's a real opportunity just investing in reliability. You'll note that we were projecting throughput at 92% of system capacity. By investing in reliability over time, we think we can get that number up. There's opportunities that we've demonstrated in the past in Hawaii, and we think there's significant opportunities to run the way we did in June, kind of year-round in Montana with some investment.

In addition to that, we'll also be looking at building out our logistics system. We also continue to grow our retail system. We've got a couple of new to industry sites that will be opening this year, one in Hawaii and one in Washington. And then, of course, we'll be investing in renewables around our existing footprint.

In addition to that, I mean, obviously, we're looking at extending into other communities within our market, but that's not something that we really look at unless an opportunity pops up. And we'll take all of that into account and at the same time, give consideration to our authority to repurchase our stock as well.

Operator [7]
Our next question comes from Neil Mehta with Goldman Sachs.

Neil Singhvi Mehta, Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst [8]
Yes, Bill, [team] my congrats to you. It was a really strong start to the year. And this kind of leads to my first question, which is -- you've talked about a mid-cycle view on free cash flow per share or EBITDA basis in the past. Can you talk about how that view is evolving in light of execution in this margin environment? And how can we frame what a blue sky could look like for the business a couple of years out if you continue on this trajectory?

William C. Pate, Par Pacific Holdings, Inc. - CEO & Director [9]
I think one way to think about it, Neil, is the mid-cycle that we quoted was kind of based on a 15-19 average, and it was also based on an acquisition case in Billings of 50,000 barrels a day. And we've noted in the past that if we can get our utilization, our throughput, up and build 1,000 barrels a day, I think that added close to 10% of the net present value of our evaluation of Billings, or close to $30 million in net present value, if you think about it in the context of the purchase price for the steel. So there's a real opportunity for growth associated with getting our throughput up.

And we've increased our throughput in Hawaii, and that actually adds value as well. I think the averages as well, if you think about that 15-19 average, we've improved our capture in Hawaii, and I don't have the number in front of me, Shawn may have specifics, pretty materially over that average as well. I think that, that also was -- we took that into account to some extent, but I think we're actually capturing more value in Hawaii than we did when we quoted that mid-cycle.

So I think there's improvement on the -- to summarize, improvement on the Hawaii side, improvement on the Montana side, both very achievable and within our control and then overall, we'll wait and see what the market gives us.

Neil Singhvi Mehta, Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst [10]
That's great. And that's -- the follow-up is just talk about Hawaii. It's a unique market, it's a niche market, it's tied into Singapore where there's been some strengthening of margins here. Just what are you seeing on the ground there? How should we think about the back half outlook for that Hawaii business?

William C. Pate, Par Pacific Holdings, Inc. - CEO & Director [11]
The Hawaii business is strong, and it's been stronger in the second half of the year. I think as you noted, the first half of this quarter, we've seen improvements. I don't know that there's a major change in Singapore cracks other than just following global cracks. I mean Singapore has been right up against the -- with Europe. And so new capacity that's been coming online has generally been flowing West to Europe and the inventories in Singapore continue to be very tight. Frankly, inventories globally are tight, and so I think local products -- local production tends to be directed towards local supply.

The Chinese have opened a couple of new refineries in the last 9 to 12 months, but those tend to be highly oriented towards the petchem market. One of their more recent highly complex refineries, I think it was 400,000 barrels a day, but only 50,000 barrels a day was actually going to transportation fuels. The rest was routed for petchem. And I think one of the things we're seeing is a fairly significant divergence between naphtha, which is flowing into the petchem market and fairly weak in the transportation fuels in Asia, which -- and that spread is probably about as wide as we've seen in terms of -- if you just think about the gasoline naphtha spread in Asia. And I think that's a reflection of relatively strong demand for transportation fuels in Asia and somewhat of a weakening demand in the pet chem market, which is driving naphtha prices or creating a glut of naphtha in the global market.

Neil Singhvi Mehta, Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst [12]
Bill, if you could build on that, what -- how that ties into Hawaii, whether in the basis that you see in Hawaii relative to Singapore?

William C. Pate, Par Pacific Holdings, Inc. - CEO & Director [13]
Sure. Well, I mean, again, we generally are producing transportation fuels for our local market. So we're somewhat insulated from the naphtha market. I mean, we do on occasion get a little length, then we export. And that will happen periodically where we have a bulk sale in naphtha. But for the most part, we're focused on using our reformer and our other upgrading capacity to take all of our intermediates to convert those into transportation fuels and/or supplying the local heating fuel market or the energy market, the electricity market, as you know, there is fueled by fuel oil. So we're in pretty good shape and that tends to enhance our capture relative to the Singapore market.

Operator [14]
Our next question comes from James Larkin with Piper Sandler.

James Robert Larkin, Piper Sandler & Co., Research Division - Research Analyst [15]
This is Jimmy Larkin filling in for Ryan Todd. So I guess just to continue on Hawaii, we've seen the landed diff falling over the last couple of quarters. What do you guys see as like maybe the outlook in the back half of the year kind of going forward into 2024 for those landed differentials.

William C. Pate, Par Pacific Holdings, Inc. - CEO & Director [16]
Do you want to cover that, Will?

William Monteleone, Par Pacific Holdings, Inc. - President & Director [17]
Sure. So Jimmy, I think you're correct. Keep in mind that the Hawaii crude differentials operate on probably a 90-day lag. So the market conditions that were in effect in the 90-day period prior to the third quarter is really what's showing up in our financials. So I think in general, that's -- I would say the second quarter was a period of time where you probably saw some excess physical crude length out there. And overall, backwardation was relatively narrow. And ultimately, we -- it was a good opportunity to buy in some crude and drive that diff down into the low $5’s.
I think, obviously, the market's changed. I think, as you think about the Saudi production cuts that have impacted both medium sour and heavy barrels quite a bit. I think probably most notable would be the different -- the unique relationship you're actually seeing Dubai barrels

trade at a premium to the dated Brent, which is quite unusual given the quality differences, but it tells you where the world is today. So again, I think you're looking at probably a tighter crude market in the back half of the year than where we've sat and obviously, a very dynamic market, and I think we'll continue to remain flexible on our crude purchasing and ensure that we balance and get the right barrels in at the best price. So I think that's probably the best guidance I can give you on the crude market and the factors to watch.

James Robert Larkin, Piper Sandler & Co., Research Division - Research Analyst [18]
Sure. And then turning back to Montana really quick. So the capture was 134% in the quarter. I know you said that this is highly seasonal and obviously, Rockies has been quite strong and I'm just wondering, with WCS kind of rebounding even if we see Rockies moderate, what -- have you guys -- you updated your kind of base case acquisition for throughput? Have you made any updates to kind of where you expect capture just based on that?

Shawn Flores, Par Pacific Holdings, Inc. - Senior VP & CFO [19]
Hi Jimmy, it's Shawn. Yes, I think our Montana capture long-term outlook is in the 100% to 115% range versus the Gulf Coast 3-2-1, compared to the 134% capture in June. And I would just refer to the comments I made about Rockies cracks relative to the Gulf Coast. We saw gasoline trade north of $20 per barrel premium to Gulf Coast in June and diesel was $40 per barrel premium. I think since then, gasoline's traded off in the Rockies by about $5 relative to Gulf Coast and diesel north of $10. So still very, very strong cracks, both Gulf Coast and Rockies. But I think we're -- I think June was a peak.

Operator [20]
Our next question comes from Jason Gabelman with Cowen.

Jason Daniel Gabelman, TD Cowen, Research Division - Director & Analyst [21]
Sticking with the Billings assets. So just to clarify, one, is 55,000 barrels a day, a good kind of base case number moving forward on throughput? And then can you talk about OpEx as well moving forward, $8 a barrel, I think is below the acquisition case of $10 a barrel. What drove the difference? And is that $8 a good number to think about moving forward?

William Monteleone, Par Pacific Holdings, Inc. - President & Director [22]
Sure. Jason, it's Will. I think we gave you the third quarter guidance, which is 52,000 to 57,000. So I think 55,000 at the midpoint is reasonable based on where we sit today. On the OpEx side, the $10 per barrel number was based on a 50,000 barrel per day throughput number, so I think the majority of the improvement was really just driven by increasing the overall throughput. So if we're down in the 55,000 range, you're probably in the middle there is probably the right way to think about it. So not a lot of variables in there that moves with incremental throughput. So obviously, another factor when you think about the value we see in driving throughput up into the low 60's.

Jason Daniel Gabelman, TD Cowen, Research Division - Director & Analyst [23]

Great. And then my follow-up, going back to Hawaii, it's been a beneficiary, I think, of elevated product tanker rates. Can you talk about the outlook for those rates moving forward? Have you seen them come off at all? What's been driving the strength so far in the first half of the year and your outlook for the second half?

William Monteleone, Par Pacific Holdings, Inc. - President & Director [24]
Sure. So I think on the product tanker side, yes, you've probably seen the lump sum movement of MR ship from, let's call it, Asia into the West Coast, probably peak in the low $3 million to $3.5 million range and probably hovering around $2 million today. It's been there for the last couple of months. So it's been stable in that range, which is still elevated relative to history. So again, I think that's generally what we're seeing. And then overall, ultimately, the price lag impact that we saw -- we've had three quarters in a row of benefit of declining crude oil prices as well as compressing diesel cracks. And as we've talked about the third quarter right now, you've got quite a bit of strength on both crude and diesel cracks expanding. So -- which is fundamentally positive for our business. But just keep in mind, as you think about the capture dynamics that is a factor that's been a tailwind for us for the last three quarters. So again, that's going to move quarter-to-quarter. But overall, still, I think, have very strong capture rates in Hawaii.

Jason Daniel Gabelman, TD Cowen, Research Division - Director & Analyst [25]
Do you have a -- sorry, just a follow-up on that. Do you have a rule of thumb how to convert that $3.5 million to $2 million into $'s per barrel as we think about the Hawaii benefit?

William Monteleone, Par Pacific Holdings, Inc. - President & Director [26]
I mean I think it's embedded in the capture percentages, Jason. So I wouldn't give you an idiosyncratic rule of thumb to point to. I think there's so many pieces moving. I think we're trying to get you to a single point that ultimately takes into account all the moving pieces that are in play.

Operator [27]
Our next question comes from John Royall with JPMorgan.

Alejandra Magana, JPMorgan Chase & Co, Research Division - Analyst [28]
This is Alejandra Magana on for John Royall. We were just wondering, will any of the working capital impact from Billings reverse in future quarters?

Shawn Flores, Par Pacific Holdings, Inc. - Senior VP & CFO [29]
Hi there, it's Shawn. We saw a positive working capital impact in June in Montana, I mentioned that in the prepared remarks. I'm not expecting a reversal of that in Q3. If anything, I think we could see incremental benefits, I think most of the working capital cycle flush out in June.

Alejandra Magana, JPMorgan Chase & Co, Research Division - Analyst [30]

Okay. And switching gears, can you just provide an update on how the Laramie business is performing year to date, and expectation of a dividend in the first quarter of next year. And how do you think about holding versus trying to monetize the stake with where gas prices are today.

William C. Pate, Par Pacific Holdings, Inc. - CEO & Director [31]
Yes. Thanks for that question. Laramie continues to perform well. I mean, obviously, gas prices have come off, but they've got pretty good hedges in place, which tended to blunt some of the cash flows when they peaked last winter, and they're supporting the business now. As I've mentioned in the past, the distributions are probably going to be less of a function of where gas prices are and more a function of whether we're drilling. And we don't have a rig in the field right now. We are completing some wells and that's going well. So I expect some production to come online for the winter. But with the lack of any development drilling in '23, I think the expectation is there would be a dividend next spring.

Operator [32]
Our next question comes from Manav Gupta with UBS.

Manav Gupta, UBS Investment Bank, Research Division - Analyst [33]
Guys, in the opening comments, you mentioned some opportunities around green hydrogen. Can you talk a little bit more about what kind of opportunities and scope you're looking in terms of green hydrogen sourcing?

William C. Pate, Par Pacific Holdings, Inc. - CEO & Director [34]
Yes. So Manav, thanks for the question. We're assessing an opportunity in Washington at our Tacoma facility using hydropower and partnering with the local municipal utility, and we would be using that hydropower to drive an electrolyzer to generate hydrogen which then would be used to supply the hydrogen necessary for a sustainable aviation fuel facility. We think it's attractive given the cost of the hydropower.

Manav Gupta, UBS Investment Bank, Research Division - Analyst [35]
Just a clarification, who would own the electrolyzer and who operates the electrolyzer? Will you do that? Or would you hire somebody to do that for you?

William C. Pate, Par Pacific Holdings, Inc. - CEO & Director [36]
We're still assessing that. We will certainly be an equity participant in that electrolyzer. We may bring in a partner. We're still considering our options with respect to the development there. But it's on our property, and it'd be adjacent to a sustainable aviation facility -- fuel facility, and we'd be operating both units.

Manav Gupta, UBS Investment Bank, Research Division - Analyst [37]
That's absolutely great to hear because we do think there is a lot of scope for green hydrogen eventually for sustainable aviation fuel or even RD. So I'm glad you're taking the leadership role

in that. I have a quick follow-up for you. Billings also added some logistical assets. So how should we think about the logistics segment EBITDA run rate going forward?

William C. Pate, Par Pacific Holdings, Inc. - CEO & Director [38]
You want to cover that, Shawn?

Shawn Flores, Par Pacific Holdings, Inc. - Senior VP & CFO [39]
Yes. Manav, it's Shawn. We've signaled $35 million of logistics contribution from the Montana system, and that includes the refined product terminals, our crude pipeline and the refined product pipeline that runs from Billings to Eastern Washington.

Operator [40]
Our next question is a follow-up from Jason Gabelman with Cowen.

Jason Daniel Gabelman, TD Cowen, Research Division - Director & Analyst [41]
I just wanted to ask about the status of the Hawaii SAF project. I know you laid out some return metrics on the last call. Just wondering how -- if those metrics are still fair to think about as you progress the project? And specifically, how you're thinking about feed acquisition.

William Monteleone, Par Pacific Holdings, Inc. - President & Director [42]
Sure, Jason. This is Will. I think the return ranges that we gave you in the past, I think still holds today. So again, I think we're targeting an IRR in the 40% range. And ultimately, we're targeting to sequence having the SAF plant online in 2025 in conjunction with the Hawaii broader plant turnaround. So again, a lot of work going into that today. On feedstock sourcing, again, I think we think we're in an advantaged location largely because of the oilseed opportunity in the state of Hawaii. And then also, we believe we've got some advantages in sourcing waterborne feedstocks from Latin America. So again, I think that's ultimately going to be the solutions that we're thinking about for our feedstock strategies in Hawaii over time.

Operator [43]
This concludes our question-and-answer session. I would like to turn the conference back over to William Pate for any closing remarks.

William C. Pate, Par Pacific Holdings, Inc. - CEO & Director [44]
Thank you, Sarah, and thank you everybody for joining us today. I want to congratulate our team on an excellent quarter. There are a lot of opportunities within our portfolio, and we look forward to sustained future growth of our earnings profile. Have a good day.

Operator [45]
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.