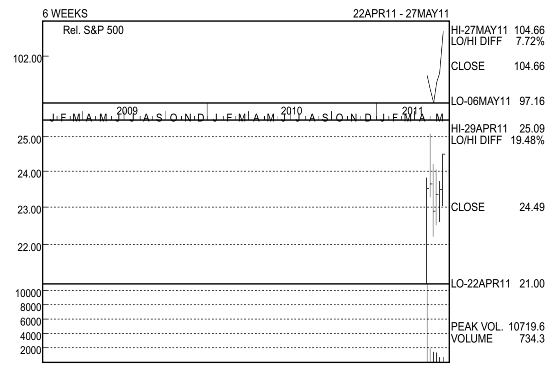
INITIATION | COMMENT

MAY 31, 2011

Tesoro Logistics LP (NYSE: TLLP)

Growthy MLP Story with Bakken Exposure & Drop Down Visibility



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FY Dec	2010A	2011E	2012E
DCF - FD		1.14	1.82
EPU (Op) - FD		1.00	1.46
EBITDA (MM)		52.7	67.0
P/DCF	NM	21.5x	13.5x
P/EPU	NM	24.5x	16.8x
EV/EBITDA	NM	14.2x	11.1x

DCF - FD	Q1	Q2	Q3	Q4
2011	0.00E	0.37E	0.37E	0.40E
2012	0.39E	0.44E	0.45E	0.50E
EPU (Op) - FD				
2011	0.00E	0.33E	0.33E	0.34E
2012	0.33E	0.36E	0.37E	0.40E
EBITDA (MM)				
2011	12.3E	12.8E	13.2E	14.4E
2012	14.6E	16.3E	17.1E	19.0E

All values in USD unless otherwise noted.

Outperform
Average Risk

Price:	24.49	**Price Target:**	28.00
		Implied All-In Return:	20%
Shares O/S (MM):	30.5	**Market Cap (MM):**	747
Dividend:	1.35	**Yield:**	5.5%
Float (MM):	30.2	**Avg. Daily Volume (MM):**	0.40
Debt to Cap:	37%	**Est Tax Deferral:**	80%

Initiating at Outperform with a $28 Price Target

We are initiating coverage on Tesoro Logistics LP (TLLP) with a price target of $28/unit, and a rating of Outperform, Average risk. We believe TLLP deserves to maintain a premium valuation given the potential for above average distribution growth from asset drop downs and exposure to the highly active Bakken Shale.

Investment Thesis

- **Long-term, fixed-fee contracts with volume commitments provide cash flow security**. TLLP generates a substantial portion of its revenue under long-term, fee-based contracts with its parent Tesoro Corp. These contracts include minimum volume commitments and fees that are indexed for inflation, which both support stability of cash flows and limit commodity exposure.
- **Solid organic growth opportunities should be nicely accretive given conservative capital structure out of the box.** TLLP exited its IPO with debt leverage of less than 1.0x and has additional borrowing capacity on its revolver of $100M. TLLP has earmarked $15.5M of near-term organic growth capex over the next two years, which we think will be invested at less than 2.0x EBITDA and grow EBITDA by over 20% even assuming no drop downs occur.
- **Significant drop-down potential offers visible growth.** The initial assets dropped to TLLP in the IPO generate roughly $50M-$55M of annual EBITDA. TLLP has right of first offer (ROFO) on a set of assets that we think can generate annual EBITDA of $50M-$80M, and we model about $5M of annualized EBITDA is dropped into the MLP every six months beginning 4Q11.

Distribution Outlook

TLLP has an annualized minimum quarterly distribution of $1.35/unit, or 5.5% at current prices. We expect distributions to increase to an annualized rate of $1.773/unit by year end 2012 following near-term organic growth projects and the next set of drop downs, which implies 30+% distribution growth over the next 18 months.

Risks

TLLP derives substantially all of its revenue from sponsor Tesoro, which provides concentration risk. Lower refined product demand could reduce Tesoro refining margins and volumes of crude and refined products handled by TLLP. Our forecast is dependent on TLLP coming to financial terms with its parent on the drop down assets.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 17.

Investment Thesis

- **Long-term, fixed-fee contracts with volume commitments provide cash flow security**. Tesoro Logistics LP (TLLP) generates a substantial portion of its revenue under long-term, fee-based contracts with Tesoro Corp ("Tesoro" or "parent"). These contracts include minimum volume commitments and fees that are indexed for inflation, which both support stability of cash flows and limit commodity exposure. Under the agreements, TLLP provides pipeline transportation, trucking, terminal distribution, and storage services to Tesoro, and Tesoro provides TLLP with minimum monthly throughput volumes of crude oil and refined products. The contracts include 10-year pipeline transportation in the Bakken on the High Plains system, a two-year trucking agreement in the Bakken, and 10-year storage and terminalling agreements in TLLP's Terminalling, Transportation, and Storage segment. We also expect TLLP to explore other opportunities to provide fee-based services through organic growth projects.
- **Solid near-term organic growth opportunities should be nicely accretive given conservative capital structure out of the box.** Tesoro Corp. has historically allocated minimal growth capex to its logistics assets because returns were not sufficient for the refining company (typically 16–20% IRRs), and the assets were viewed as a cost center. However, these returns are attractive for an MLP structure, and we believe TLLP can spend relatively small levels of capex to optimize the asset base, fill existing capacity, and add new capacity. TLLP exited its IPO with only $50 million in debt (revolver draw) and a leverage ratio of less than 1.0x Debt / 2011 EBITDA. The partnership has additional borrowing capacity on its revolver of $100 million and can expand the revolver by an additional $150 million through the accordion feature. Given this borrowing capacity, we expect TLLP to easily fund the next $100 million of organic growth capex and drop down payments through debt financing, which should make for more accretive projects. TLLP has earmarked $15.5 million of near-term organic growth capex over the next two years, which is expected to generate run-rate EBITDA of about $10.5 million. These projects will focus on filling High Plains system capacity in the Bakken and capturing additional services in the Terminalling segment. This implies very accretive projects at less than a 2.0x EBITDA multiple and the ability to grow EBITDA by over 20% even assuming no drop downs occur.
- **Significant drop-down potential offers visible ongoing growth.** The initial assets dropped to TLLP in the IPO generate roughly $50 million–$55 million of annual EBITDA. Tesoro has also identified a portfolio of assets that it has agreed to give the right of first offer (ROFO) to TLLP. The ROFO assets include three product terminals, two pipelines, and four marine terminals. Tesoro Corp. has a work team in place focused on prioritizing the potential drop downs. Some of the projects require more commercial development than others, but we expect a deliberate and ratable asset drop schedule over the next several years (for comparison purposes, the IPO process took six months and involved 10 assets, so we feel this ratable schedule is erring on the side of conservatism). In total, we estimate that the ROFO assets can generate annual EBITDA of $50 million–$80 million, which provides nice visibility on growth. We model a $50 million asset drop every 6 months beginning in the fourth quarter of 2011 using an 8–9x EBITDA multiple (so roughly $5-6 million in annual EBITDA per drop).
- **Asset footprint in regions of high demand and production growth.** TLLP's High Plains system is a premier crude gathering system in the Williston Basin (Bakken Shale), which is one of the most prolific and active onshore oil producing basins in North America. RBC estimates North Dakota rig count to increase from 177 rigs currently to about 200 by year end 2011. While estimates for future Bakken production vary widely, we see some level of consensus for Bakken production to double within the next five years (from about 400 Mbopd currently), and this could prove conservative if the current drilling pace holds. Tesoro recently announced that it is expanding its capacity at the Mandan refinery (the only refinery within 300 miles of the Bakken) from 58,000 Bopd to 68,000 Bopd, which will provide a near-term growth opportunity for TLLP (High Plains' sole function right now is to feed the Mandan refinery). In addition, as production in the play grows, there is an increasing need for crude oil takeaway capacity. We believe that TLLP is well positioned to benefit from this trend, as High Plains is ideally situated to add interconnects to third-party pipelines to increase utilization on the system (TLLP can push 70,000 Bopd to Mandan now, but the system can handle over 100,000 Bopd if interconnects are negotiated). On the terminalling side, TLLP's assets are primarily located on the West Coast, which is an area of expected growth in refined product demand.
- **TLLP is low in the GP splits, which should benefit the limited partners.** TLLP is currently in the 2% general partner splits, which should provide the opportunity for acquisitions to be more accretive to unitholders. The lower split level lowers the cost of capital versus MLPs higher in the split.

TLLP Investment Risks

We consider two sets of risks when looking at a master limited partnership. First are the risks that come from holding the asset class (think of the different risk profile between sub-sectors, like a regulated pipeline asset versus gathering and processing asset). Second are the risks associated with holding assets in a master limited partnership structure.

TLLP-Specific Risks

- TLLP derives substantially all of its revenue from sponsor Tesoro Corp. and would be adversely affected if it does not satisfy its commercial obligations to TLLP.
- Lower refined product demand could reduce Tesoro refining margins and volumes of crude and refined products handled by TLLP.
- The partnership's assets are concentrated and reduced production in the Bakken Shale could reduce volumes gathered by the High Plains system.
- Our forecast is dependent on TLLP coming to financial terms with its parent on the drop down assets. If TLLP does not come to financial terms, or if these terms are not as favorable as our forecast, this could have an impact on our analysis.

Overall MLP Risks

- **Credit markets**: Valuations are impacted by changes in overall interest rates and credit spreads. Rising interest rates or widening spreads in the credit market tend to negatively impact the valuation of MLPs.
- **Trading liquidity**: MLPs tend not to be traded as often as their corporate counterparts mainly due to accumulating tax deferrals. Therefore, trading liquidity is limited in many of the public partnerships.
- **Potential conflicts with general partner**: Most MLPs have a GP that is incentivized to grow the distribution pool (either by increasing the distribution and/or issuing more LP equity). This conflict could allow the GP to reap higher economics on transactions while the limited partners achieve minimal accretion or, worse, dilution. In addition, this potential conflict entices the GP to add riskier assets to grow the distribution pool. Investors should pay particular attention to the incentive distribution rights (IDRs) held by the GP; as the "splits" work higher, they could potentially increase the cost of equity capital for the partnership.

Valuation

Using our multi-stage dividend discount model (DDM) for the LP units, we calculate a 12-month price target of $28/unit, which implies a yield of 5.7% on our one-year-out distribution estimate of $1.57/unit. Our DDM is based on our distribution estimates for the four quarters starting one year out and then a five-year growth rate of 9% (from the current distribution rate, these assumptions result in an annualized growth rate of 13% over the next five years). We discount our DDM distributions at a rate consistent with our interest rate expectations and the risk associated with an Average risk qualifier. Our risk qualifier considers and weighs various risk factors, including TLLP's trading liquidity, debt to forward EBITDA of 0.9x, forward total unit coverage of 1.1x, diversification, and commodity exposure.

Comparable Company Valuation

We believe TLLP deserves a yield premium given the potential for above-average distribution growth over the next several years as the drop down story unfolds. Based on our analysis of comparable company valuations, TLLP is currently trading at an approximately 10% premium to the group on a yield basis. Note that our 2011 and 2012 EBITDA growth estimates assume additional debt balances to complete asset acquisitions while the valuation multiples below use the existing net debt balance of approximately $47 million.

Exhibit 1: Peer Group Valuation Comparison

Partnership	Ticker	Rating	Price	Market Cap ($MM)	Dist Ann	Current Yield	Price / 2011E DCFU	Price / 2012E DCFU	EV / 2011E EBITDA	EV / 2012E EBITDA
Tesoro Logistics LP	TLLP	O-Avg	$24.49	$747	$1.35	5.5%	16.2x	13.7x	15.1x	11.8x
Peer Average						**6.1%**	**13.6x**	**12.6x**	**12.2x**	**11.3x**
Plains All American Pipeline, LP	PAA	SP-Avg	$62.12	$9,264	$3.88	6.2%	13.2x	13.4x	10.6x	10.4x
Holly Energy Partners LP	HEP	NR	$54.96	$1,213	$3.42	6.2%	13.7x	11.4x	12.6x	11.0x
Sunoco Logistics Partners LP	SXL	SP-Avg	$84.44	$2,797	$4.78	5.7%	15.0x	15.0x	10.8x	10.6x
NuStar Energy LP	NS	NR	$63.35	$4,093	$4.30	6.8%	12.6x	11.2x	12.5x	11.2x
Enbridge Energy Partners LP	EEP	SP-Avg	$30.98	$7,894	$2.06	6.6%	12.9x	11.8x	11.0x	9.8x
Genesis Energy LP	GEL	O-Avg	$26.93	$1,740	$1.63	6.1%	12.6x	10.9x	13.8x	12.3x
Magellan Midstream Partners LP	MMP	O-Avg	$58.99	$6,650	$3.08	5.2%	15.0x	14.3x	14.3x	13.8x

Source: CapitalIQ, Company reports and RBC Capital Markets estimates; non-covered consensus include third-party estimates from CapitalIQ
Priced as of market close ET, May 27, 2011.

Distribution Structure and Outlook

TLLP Poised to Deliver Outsized Distribution Growth: TLLP has a minimum quarterly distribution (MQD) of $0.3375 per common unit or $1.35 annualized, representing a 5.5% yield at the current price. We forecast total distributions of $0.9329 in 2011 and $1.6230 in 2012, representing 74% growth as the IPO year only includes a partial distribution. However, we expect TLLP to deliver outsized distribution growth with an annualized distribution rate of $1.7730 in the fourth quarter of 2012, which represents 25% growth over the $1.4130 rate in the fourth quarter of 2011.

Incentive Distribution Rights (IDRs): IDRs, which are owned entirely by the general partner Tesoro Logistics GP, will not be triggered until common and subordinated unit holders receive an aggregate distribution of $0.388125.

Subordinated Units: Tesoro Corp. owns all of the 15.3 million subordinated units, or 49% of the total outstanding limited partner interest. The subordinated units can receive the MQD only after the common units have received the MQD and any arrearages from prior quarters. The subordination period ends after TLLP has paid the MQD for three consecutive years on or after June 30, 2014 or 150% of the MQD ($2.025) for the four quarters prior to that date.

Exhibit 2: Distribution Tiers

				Percentage Split		
				Unitholders	GP	IDR
Minimum Quarterly Distribution			$0.337500	98.0%	2.0%	0.0%
First Target	$0.337500	-	$0.388125	98.0%	2.0%	0.0%
Second Target	$0.388125	-	$0.421875	85.0%	2.0%	13.0%
Third Target	$0.421875	-	$0.506250	75.0%	2.0%	23.0%
Thereafter		>	$0.506250	50.0%	2.0%	48.0%

Source: Partnership reports

Partnership Overview

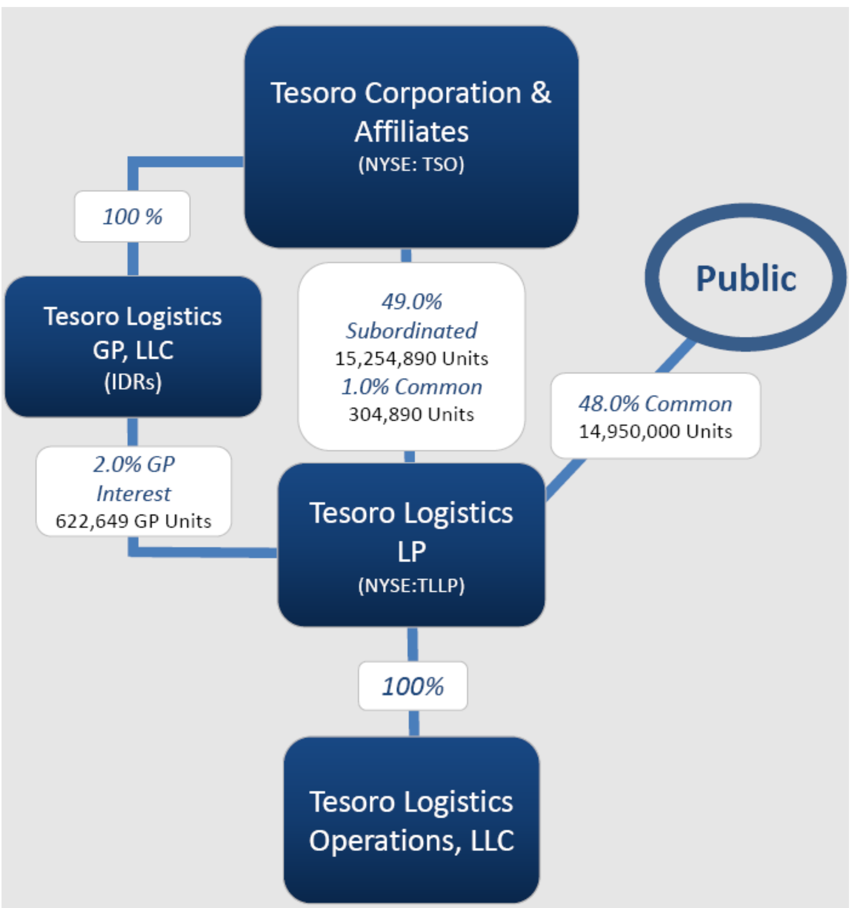
TLLP is a growth-oriented MLP formed by Tesoro Corporation[1] (TSO: $24.14: Sector Perform, Above Average Risk) to operate its gathering and processing, and short-haul pipelines, trucking and terminalling logistics assets. The partnership intends to operate its assets under long-term, minimum volume contracts with Tesoro and pursue asset drop-down growth opportunities. The initial assets are strategically located near Tesoro refineries in the Bakken Shale, West Coast, Rockies and Alaska with potential drop-downs near existing infrastructure.

TLLP was formed via an initial public offering on April 19, 2011, when Tesoro Corp., as the sole selling shareholder, sold 13,000,000 common units at a price of $21.00 per unit for net proceeds of $246.6 million. TLLP received $3 million for working capital with the balance used to fund $2 million of debt issuance costs and a $241.6 million distribution to Tesoro. Additionally, the partnership concurrently entered a $150 million credit facility and drew $50 million to fund an additional distribution to Tesoro. Following the offering and full exercise of the 1,950,000 over-allotment option, Tesoro Corp. owns 0.3 million common units, all 15.3 million subordinated units, and 0.6 million GP units (which in total represents a 52.0% interest). Common unit holders own a 48.0% common interest.

TLLP Incentive Distribution Rights Structure

Tesoro Corp. owns a 2.0% interest in all distributions in addition to holding 100% of the incentive distribution rights above minimum and target distribution levels. The incentive distribution rights entitle the general partner to receive increasing percentages, up to 48%, of distributions from operating surplus after pre-defined distribution targets.

Exhibit 3: TLLP Ownership Structure



Source: partnership presentation

[1] Covered by RBC Capital Markets, LLC analyst Jacques Rousseau; (703) 787-9014; jacques.rousseau@rbccm.com

Initial Assets Overview

As part of the IPO, Tesoro Corp. contributed crude oil and refined products logistics assets with gross book value of $193 million to the partnership, supported by fixed-fee minimum volume agreements with Tesoro. The initial assets consist of a crude oil gathering system in the Bakken Shale of North Dakota and Montana, eight refined products terminals in the Midwest and Western US, and a crude and refined products storage facility and five short-haul pipelines in Utah. The partnership's assets and operations are organized in two segments: Crude Oil Gathering and Terminalling, Transportation and Storage. Exhibit 4 summarizes the partnership's initial assets.

Exhibit 4: TLLP Initial Asset Overview

Crude Oil Gathering (~48% of EBITDA)

- Crude gathering system in Bakken Shale / Williston Basin
- ~700 miles of pipeline and trucking from wellhead to pipeline
- Primarily serves TSO's Mandan, ND refinery

Terminalling, Transportation and Storage (~52% of EBITDA)

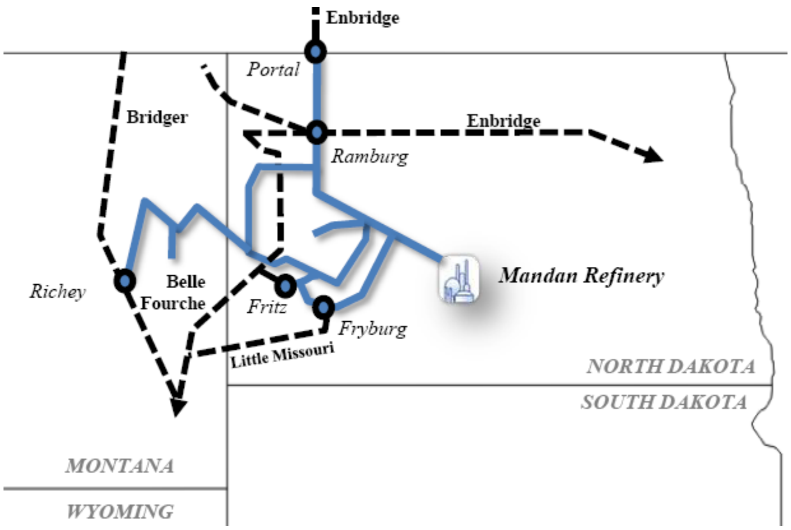
- 8 Refined product terminals
- Refined product and crude oil storage in Salt Lake City, Utah
- Short-haul pipelines in Salt Lake City, Utah

Source: Company presentations and filings

Crude Oil Gathering Segment

The partnership's common carrier High Plains system in North Dakota and Montana consists of 23,000 bpd truck-based crude gathering capacity and 700 miles of pipeline and storage assets with capacity to deliver up to 70,000 bpd to Tesoro's 58,000 bpd Mandan, ND refinery (the only refinery within 300 miles of the Bakken). We believe the High Plains assets present significant organic expansion opportunities, including capturing third party volumes and replacing truck-gathered volumes with higher margin pipe connections. The partnership expects minimum contracted volumes under agreements with Tesoro to account for approximately 88% and 97% of 2011 pipeline and trucking volumes, respectively Exhibit 5 provides a summary of the High Plains assets.

Exhibit 5: High Plains Gathering System Overview



High Plains Pipeline (~71% of Crude Volume)

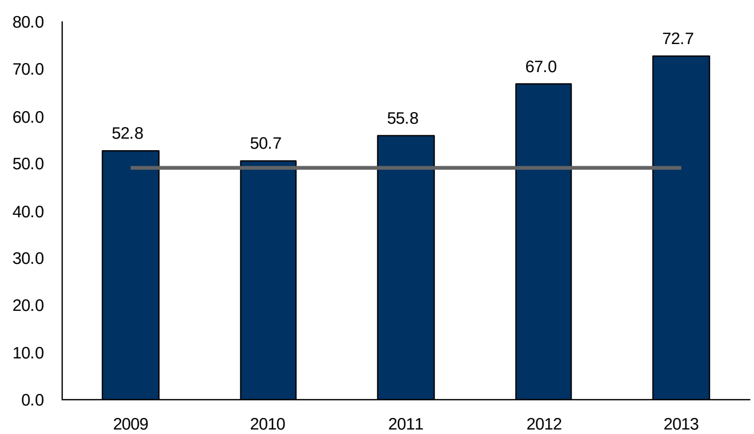
- 700 mile gathering and trunk line system across ND and MT with 70,000 bpd capacity
  - 45 proprietary gathering entry points
- Available capacity and interconnects with third party regional pipelines
- Can expand with optimization /debottlenecking and connections to third party pipelines

High Plains Truck Gathering (~29% of Crude Volume)

- 23,000 bpd truck gathering operations
- Hauls to 13 truck unloading facilities along the High Plains truck line system
- 45% proprietary and 55% third party trucks

Source: Company presentations and filings; RBC Capital Markets estimates

Exhibit 6: High Plains Pipeline Minimum and Expected Volumes (Mbpd)

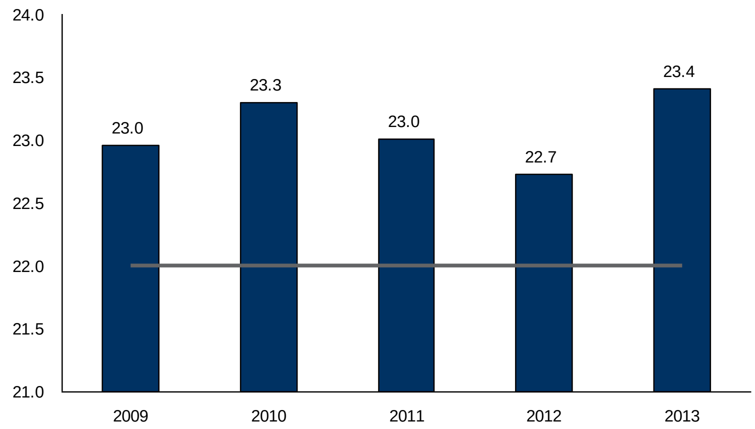


High Plains Transportation Agreement

- Tesoro reserves 70% of capacity (49,000 bpd)
- TLLP charges Tesoro for transporting crude oil from North Dakota origin points pursuant to both committed and uncommitted tariff rates, which vary depending on the origin point on the system from which barrels are transported.
  - 2009 Tariff: \$1.28/bbl
  - 3Q10 LTM Tariff: \$1.35/bbl
- TLLP filed a 10-Q for the March 2011 quarter on May 26, 2011. In the 10-Q, TLLP reported 1Q11 pipeline volumes of 55,301 bpd, which was 5% higher YoY on improved Mid-Continent volumes
- RBCCM volume forecast assumes 2Q12 completion of additional capacity in connection with the Mandan refinery expansion (see Exhibit 6).

Source: Company presentations and filings; RBC Capital Markets estimates

Exhibit 7: High Plains Trucking Minimum and Expected Volumes (Mbpd)



High Plains Trucking Agreement

- Tesoro is committed to 22,000 bpd
- Fee of $2.72 per truck-hauled barrel
- Additional $0.14/bbl tank usage fee
- Truck hauling fee includes a fuel surcharge
- Volumes that are shifted to pipeline gathering can relieve trucking volume commitment
- TLLP filed a 10-Q for the March 2011 quarter on May 26, 2011. In the 10-Q, TLLP reported 1Q11 trucking volumes of 21,628 bpd, which was 8% lower YoY on adverse weather. We expect volumes to normalize in 2Q11.

Source: Company presentations and filings; RBC Capital Markets estimates

Crude Oil Gathering Organic Growth Opportunities

Mandan Refinery Expansion: Tesoro parent recently announced plans to increase capacity at its Mandan refinery from 58,000 Bopd to 68,000 Bopd, with expected in-service in the second quarter of 2012. TLLP has identified $6.6 million of capital opportunities over the next 12 months to support the Mandan expansion. We expect this capex to drive an additional $6.4 million of EBITDA on an annual basis after completion in the second quarter of 2012, which implies an approximately $4.3 million contribution to full year 2012 EBITDA.

Exhibit 8: Near-Term Crude Oil Gathering Organic Growth Projects

Project	Capex ($MM)	Annual EBITDA ($MM)	Expected Completion	Description
Crude Gathering:				
High Plains	$6.6	$6.4	2Q12	Pumping, tankage and truck unloading capacity (one expansion and one additional truck unloading facility) to support TSO's Mandan refinery expansion
Total	**$6.6**	**$6.4**		

Source: Company presentations and filings; RBC Capital Markets estimates

Other Organic Growth Opportunities: Beyond what has been identified to support the Mandan refinery expansion, we believe TLLP may also pursue opportunities to capture growing Bakken take-away demand in addition to its Mandan volumes.

- Notably, referring back to Exhibit 5, TLLP has the potential to interconnect with pipelines at Portal, Fritz, and Fryburg in North Dakota and with the Bridger Pipeline in Richey, MT. While TLLP can currently push 70,000 Bopd to the Mandan refinery (stated capacity on the system), the physical capacity is over 100,000 Bopd if these interconnects can be negotiated. Two or three of the interconnects are very low capex requirements (basically turning a valve) and two or three of the interconnects are a bit more capital intensive. Regardless, we believe this is a nice source of potential growth.
- We believe TLLP may look at opportunities to move crude oil away from the Bakken (including to the West Coast), and this could include capital spent around Mandan to give the MLP that capability.
- Within the trucking segment, TLLP also may be able to better optimize its fleet over time, as the partnership currently utilizes 55% third-party trucks. This is primarily due to the difficulty to obtain and retain drivers, but if TLLP is able to increase its proprietary mix, we believe this could have some positive impact on results.
- We also believe that the partnership will seek to engage producers to replace truck-gathered volumes with pipeline volumes, which offers a higher margin.

Terminalling, Transportation, and Storage Segment

The partnership's Terminalling, Transportation, and Storage assets are located primarily on the West Coast and are comprised of eight refined products terminals and a refined products and crude storage facility with related short-haul pipelines serving Tesoro's Salt Lake City refinery. The product terminals have 229,000 bpd aggregate truck and barge delivery capacity and primarily support Tesoro's Los Angeles, Golden Eagle, Salt Lake City, Kenai, Mandan, and Anacortes refineries. The partnership expects minimum contracted volumes under agreements with Tesoro to account for approximately 86% and approximately 90% of total 2011 terminal and pipeline throughput, respectively. Exhibit 9 provides a summary overview of the refined product terminals.

Exhibit 9: Terminalling, Transportation, and Storage Asset Overview

Terminal	Capacity (bpd)	2010 Vols. (bpd)
Los Angles, CA	48,000	35,286
Stockton, CA	9,400	8,526
Salt Lake City, UT	42,000	25,457
Anchorage, AK	63,000	15,132
Mandan, ND	22,500	9,963
Vancouver, WA	19,600	8,432
Boise, ID	22,500	7,677
Burley, ID	12,000	3,477
Total Terminal	239,000	113,950
Short-haul Pipe		60,666

Refined Products Terminals

- Eight refined product terminals with aggregate truck and barge delivery capacity of 229,000 bpd
- Supports Tesoro's Los Angeles, Golden Eagle, Salt Lake City, Kenai, Mandan and Anacortes refineries
- Barge loading at Vancouver and Anchorage terminals
- 2010 volumes: 72% gasoline and blendstocks, 23% diesel, 5% jet fuel

Salt Lake City, UT Storage Facility

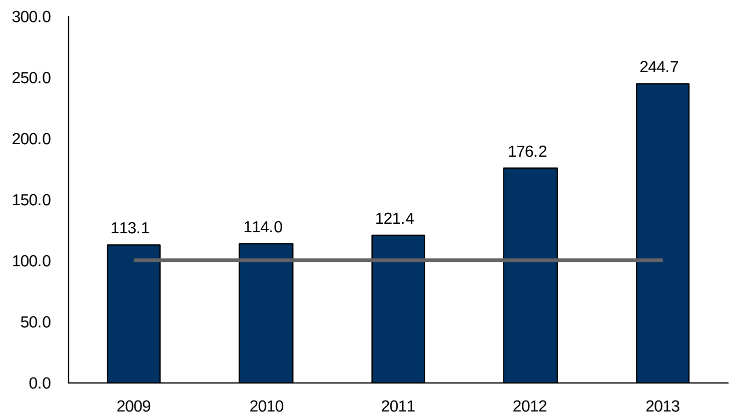
- 13 tanks with 878,000 Bbls storage capacity
- Feeds crude to TSO refinery and receives refined and intermediate products
- No terminalling capabilities

Short-haul Product and Crude Pipelines

- Three 8", 10" and 16" crude pipelines connected to Chevron and Plains All American interstate lines
- Two 6" and 8" refined products pipelines from refinery to Chevron Northwest Pipeline

Source: Company presentations and filings

Exhibit 10: Terminalling Minimum and Expected Volumes (Mbpd)



Source: Company presentations and filings; RBC Capital Markets estimates

Master Terminalling Agreement

- 100,000 bpd base terminalling volume commitments from 8 terminals
- Weighted average fee of $0.79/bbl
- 10-year contracts with two 5-year renewal options by Tesoro
- Fees rise annually on CPI escalator
- Base throughput rate and minimum commitment to ancillary service fees per Bbl
- Outlook includes volumes from our modelled drops
- TLLP filed a 10-Q for the March 2011 quarter on May 26, 2011. In the 10-Q, TLLP reported 1Q11 terminal throughput of 121,546 bpd, which was 10% higher YoY as 2010 included a scheduled turnaround.

Exhibit 11: Terminalling, Transportation and Storage Contract Overview

	Master Terminalling Agreement	SLC Storage Agreement	SLC Short-Haul Agreement
Term	10 yrs	10 yrs	10 yrs
Renewals	2 x 5 yrs	2 x 5 yrs	2 x 5 yrs
Min Vol. Commitment	100,000 bpd	878,000 Bbl	54,000 bpd
Tariff / Fee	~$0.79/Bbl	$0.25/Bbl	$0.50/Bbl/month
Escalator	CPI	CPI	CPI

Source: Company presentations and filings

Terminalling, Transportation & Storage Organic Growth Opportunities

TLLP has identified $8.9 million of capital opportunities over the next nine months within the segment, which we expect to drive an additional $4.5 million of annualized EBITDA when complete by the first quarter of 2012. Spending on the projects, which are outlined in Exhibit 12, will mostly occur in 2011 and we estimate an approximately $3.4 million impact to full year 2012 EBITDA. In general, we believe TLLP's greatest opportunities within the terminalling segment will be tapping third-party volumes. Third-party volumes were not actively pursued under Tesoro's control (so as to keep optionality open), but we believe the MLP will be better positioned to optimize the existing asset base. In addition to the identified opportunities, we believe TLLP can pursue further expansions and optimization opportunities, representing upside to our estimates.

Exhibit 12: Identified Terminalling Organic Growth Projects

Project	Capex ($MM)	Annual EBITDA ($MM)	Expected Completion	Description
Salt Lake City	$1.2	$1.4	2Q11	• Terminal rack infrastructure for ethanol blending
Stockton	$4.5	$2.6	1Q12	• Expand to capacity to capture TSO full market demand (8 Mbpd)
Los Angeles	$2.0	$0.4	1Q12	• Transmix receipt services for TSO's Los Angeles refinery
Burley	$1.2	$0.1	1Q12	• Terminal rack infrastructure for ethanol blending
Total	**$8.9**	**$4.5**		

Source: Company presentations and filings; RBC Capital Markets estimates

The Drop-Down Opportunity

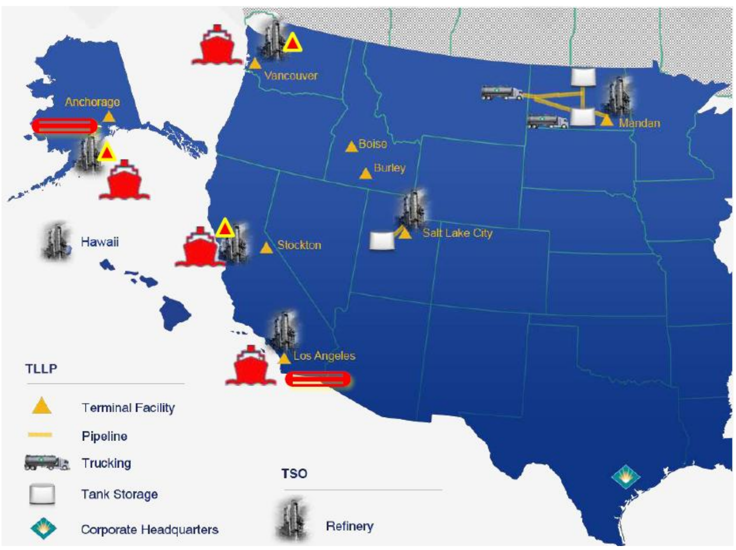
TLLP has articulated a three-pronged strategy for distribution growth, which includes optimizing the existing asset base and capturing additional third-party volume, pursuing organic growth projects, and acquiring complementary logistics assets. On the acquisition front, Tesoro has granted the partnership a right of first offer to acquire certain of its logistics assets, providing a pipeline of low-hanging growth opportunities over the next several years.

Right of First Offer (ROFO) Assets

TLLP has right of first offer to acquire certain Tesoro logistics assets including terminals, pipelines, docks and storage facilities located in Alaska, California and Washington. Management has identified an inventory of assets with gross book value of $240 million. Tesoro parent has a work team in place focused on prioritizing the potential drop downs. Some of the projects require more commercial development than others, but we expect a deliberate and ratable asset drop schedule over the next several years (for comparison purposes, the IPO process took six months and involved 10 assets, so we feel this ratable schedule is erring on the side of conservatism). In total, we estimate that the ROFO assets can generate annual EBITDA of $50 million–$80 million.

We summarize the primary ROFO assets identified by the partnership in Exhibit 13.

Exhibit 13: ROFO Assets Provide Steady Inventory of Drop-Down Opportunities



Product Terminals Pipelines

Marine Terminals

Refined Product Terminals

- Golden Eagle (CA) – 38 Mbpd; no storage
- Nikisi (AK) – 2.6 Mbpd truck rack; 211 MBbls storage
- Anacortes (WA) – 1.7 bpd; no storage

Marine Terminals

- Long Beach (CA) – 104 Mbpd crude / refined products
- Amorco Wharf (CA) – 61 Mbpd crude; 425 MBbls storage
- Avon Wharf (CA) – limited vols; no storage
- Nikisi Dock (AK) – 74 Mbpd crude / refined products; 930 MBbls storage
- Anacortes (WA) – 54 Mbpd crude / refined products; 1.4 MMBbls storage

Pipelines

- Tesoro Alaska Pipeline – 69-mile pipeline with ~31 Mbpd throughput
- Los Angeles Pipeline System – 9 lines with ~45.2 Mbpd throughput

Source: Company presentations and filings

Our cash flow and distribution growth projections assume TLLP consummates $50 million of asset drops every other quarter beginning in the fourth quarter of 2011 with an average transaction multiple of 8-9x EBITDA, which implies annual EBITDA contributions of $5.5 million–$6.25 million per transaction. During our forecast period ended December 2013, we assume five transactions totalling $250 million at a 9.0x EBITDA multiple resulting in an ~$27.8 million cumulative EBITDA contribution (see Exhibit 14 below). Our asset drop assumptions drive our outsized annualized distribution growth estimates of +25% and +23% for the fourth quarter of 2012 and fourth quarter of 2013 respectively. Our full year distribution growth estimates for 2012 and 2013 of 74% and 25% are skewed by the fact that 2011 is a partial distribution year.

DCF Outlook

Our cash flow and distribution growth projections assume TLLP consummates $50 million of asset drops every other quarter beginning in 4Q 2011 with an average transaction multiple of 8-9x EBITDA, which implies annual EBITDA contributions of $5.5 million–$6.25 million per transaction. Our asset drop assumptions drive our outsized annualized distribution growth estimates of +25% and +23% for 4Q12 and 4Q13 respectively. Our full year distribution growth estimates for 2012 and 2013 of 74% and 25% are skewed by the fact that 2011 is a partial distribution year.

Exhibit 14: Asset Drop-Down Assumptions ($MM)

Period	Transaction Value	Annual EBITDA Impact	Cumulative EBITDA Impact
2011	$50	$1.1	$1.1
2012	100	4.5	8.8
2013	100	4.7	17.9
Total	**$250**		**$27.8**

We believe TLLP's solid financial position will allow it to deliver highly accretive growth through acquisitions in the near-term without the need for additional equity raises in the foreseeable future. After the IPO, TLLP has only $50 million of debt outstanding under its $150 million revolver which equates to ~0.9x Debt / forward EBITDA and ~12x of forward interest coverage. In addition to $100 million of current availability, the credit facility can ultimately be increased to $300 million with additional lender commitments.

Exhibit 15: DCF and Distribution Forecast

($ in MM, except per share data & ratios)	2011 Quarterly Results				2012 Quarterly Results						
	Q111E	Q211E	Q311E	Q411E	Q112E	Q212E	Q312E	Q412E	FY11E	FY12E	FY13E
Adjusted EBITDA	$12.3	$12.8	$13.2	$14.4	$14.6	$16.3	$17.1	$19.0	$52.7	$67.0	$84.6
Cash Interest Expense	-	(0.3)	(0.6)	(0.9)	(1.1)	(1.4)	(1.7)	(1.9)	(1.7)	(6.2)	(10.5)
Maintenance CapEx	(0.8)	(1.1)	(1.1)	(1.3)	(1.2)	(1.3)	(1.4)	(1.5)	(4.3)	(5.4)	(6.3)
General Partner Interest	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)	(0.6)	(1.1)	(4.3)
Distributable Cash Flow to LP	$11.5	$11.3	$11.2	$12.1	$12.0	$13.4	$13.8	$15.1	$46.1	$54.4	$63.4
Distributable CF Per Unit		$0.37	$0.37	$0.40	$0.39	$0.44	$0.45	$0.50	$1.14	$1.82	$2.22
Distributions per Unit	-	$0.24142	$0.33825	$0.35325	$0.36825	$0.39325	$0.41825	$0.44325	$0.93292	$1.62300	$2.02300
Common Unit Coverage	-	1.53x	1.09x	1.13x	1.07x	1.11x	1.08x	1.12x	1.22x	1.12x	1.10x

Source: RBC Capital Markets estimates

Balance Sheet

TLLP has $50 million of outstanding long-term debt, which was a $50 million draw on its revolver. The partnership has an additional $100 million of revolver availability, which we expect to be utilized over the next year to fund organic growth and drop down acquisitions. We expect debt/EBITDA to increase from ~0.9x currently to around 3.0x by year end 2012 and 3.5x by year end 2013, which is at the high end of management's comfort zone. If the partnership undertakes larger or more numerous transactions than those assumed in our model, an equity issuance would likely be necessary.

Debt covenants are fairly relaxed, as the credit facility allows debt/EBITDA to increase to 4.5x for an acquisition, thereby allowing it to serve as a sort of bridge facility. Longer term, TLLP plans to maintain a conservative balance sheet with debt/EBITDA targeted at 3.5x and distribution coverage of 1.1x. In addition, TLLP has an accordion feature on its credit facility allowing for up to $300 million in capacity following an invitation for additional commitments.

Exhibit 16: Debt and Leverage Forecast

($ in MM, except per share data & ratios)	2011 Quarterly Results				2012 Quarterly Results						
	Q111E	Q211E	Q311E	Q411E	Q112E	Q212E	Q312E	Q412E	FY11E	FY12E	FY13E
Total Assets	$136.7	$141.3	$142.9	$194.3	$195.1	$244.5	$243.6	$292.5	$194.3	$292.5	$384.9
Total Partners' Capital	129.8	84.3	84.0	84.0	83.3	83.0	82.3	81.7	84.0	81.7	71.9
Net Debt	-	$47.0	$48.8	$99.6	$101.2	$150.2	$149.6	$198.4	$99.6	$198.4	$299.5
Net Debt / TTM EBITDA	.0x	.9x	.9x	1.9x	1.8x	2.6x	2.4x	3.0x	1.9x	3.0x	3.5x
Interest Coverage	-	38.9x	19.6x	14.2x	10.7x	9.6x	8.5x	8.2x	26.1x	9.0x	6.7x

Source: RBC Capital Markets estimates

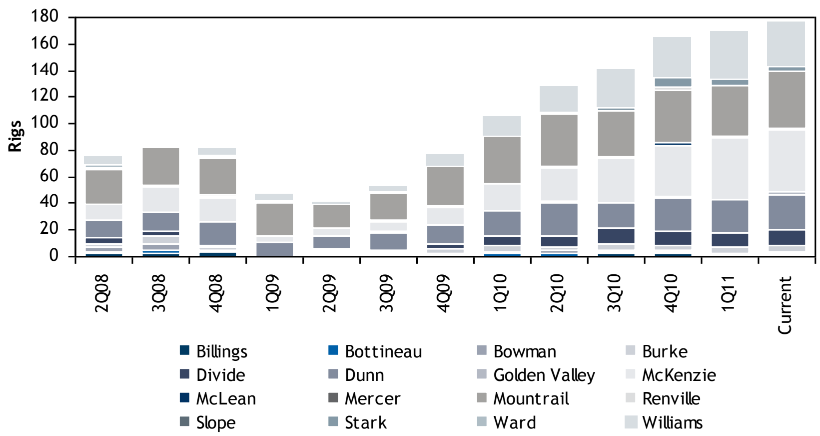
CapEx & Financing Assumptions

We estimate maintenance capex (MCX) of $4.3 million in 2011 and $5.4 million in 2012. This represents roughly 8% of EBITDA in both 2011 and 2012. For growth capital spending, we assume $10.2 million in 2011 primarily related to identified growth projects and a $50 million fourth quarter 2011 drop down. Our 2012 growth capex and acquisition estimates total $5.6 million and $100 million, respectively. We assume the capital requirements in 2011 and 2012 can be debt-funded, but if the partnership were to pursue drop downs at a faster than the expected pace, we anticipate future large acquisitions to be funded with a 50/50 debt to equity ratio to maintain leverage at or below 3.5x.

The Bakken Shale Advantage

Well Positioned for Bakken Shale / Williston Basin Production Growth: The Bakken Shale is a leading unconventional oil producing zone within the Williston Basin, which extends across North Dakota, South Dakota, Montana and parts of southern Canada. After a 2008 study, the US Geological Survey classified the Bakken as the largest "continuous" oil accumulation assessed by it to date, with 3.0 – 4.3 BBbls of technically recoverable reserves. TLLP's High Plains assets are uniquely levered to Bakken production growth which should remain robust as favorable economics drive increasing rig counts.

Exhibit 17: North Dakota Rig Count



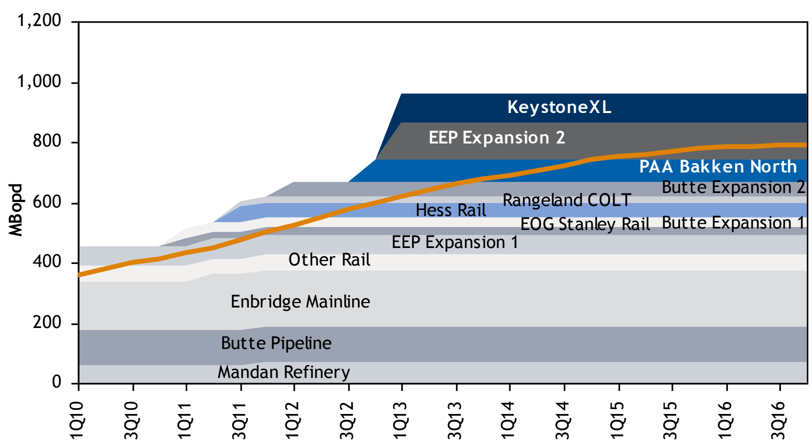
- Current rig count of 177 rigs as of May 16, 2011

Rig Count data and highlights are pulled from RBC Capital Markets E&P Analyst Scott Hanold's latest Bakken & Three Forks Update published March 24, 2011:

- **Robust Activity** continues with most operators planning to increase rig counts. We estimate the current rig count to near 200 by 2011YE.
- **Frac Capacity** is tight but some operators are committing to dedicated crews. We estimate there are around 30 crews working the basin with another half dozen on the way.
- **Bigger Still Better** more companies talking about increased well laterals and higher intensity (more stages, fluid, proppant) fracs because of improved well performance.
- **Pad Drilling** becoming in vogue now that HBP is less of an issue. This should improve operational efficiencies and reduce well costs.

Source: North Dakota Industrial Commission, Company Reports, RBC Capital Markets estimates

Exhibit 18: Bakken Shale Production Growth vs. Takeaway Capacity



- There is competition for takeaway from the Bakken Shale, but we believe the partnership will increasingly have opportunities to expand and optimize its High Plains system to capture additional third-party volumes
- Orange highlighted production forecast is a forecast for illustrative purposes from the North Dakota Pipeline Authority and does not necessarily reflect RBC's current production forecast

Source: Company presentations and filings, North Dakota Pipeline Authority, RBC Capital Markets estimates

Management

Tesoro Logistics GP, LLC, the general partner of TLLP, will manage the partnership's operations and draws on a deep bench of executive talent with an average of 27 years of industry experience.

Team

Gregory J. Goff – Chairman and Chief Executive Officer

Mr. Goff has been the chairman and chief executive officer of Tesoro Logistics GP since December 2010. Mr. Goff joined Tesoro Corporation as chief executive officer and president in May 2010. Prior to joining Tesoro Corporation, Mr. Goff served as a director of the GP of DCP Midstream from October 2008 to April 30, 2010. Mr. Goff spent the majority of his 29-year career with ConocoPhillips including as director and CEO of Conoco JET Nordic (1998-2000), MD of Conoco Limited (2000-2002), president of ConocoPhillips European and Asia Pacific downstream (2002-2004) and president of ConocoPhillips US Lower 48 and Latin America exploration and production business (2004-2006). Mr. Goff received a bachelor's of science degree from the University of Utah in 1978 and an MBA from the University of Utah in 1981. He initially expects to spend 15% of his time managing the business of the partnership.

Phillip M. Anderson – President and Director

Mr. Anderson has been president of Tesoro Logistics GP since December 2010. He has served as Vice President, Strategy for Tesoro since April 2010. Mr. Anderson has held a variety of senior management roles at Tesoro Corp including Vice President, Financial Optimization & Analytics and Vice President, Treasurer since joining Tesoro in 1998 as Senior Financial Analyst. Prior to his tenure at Tesoro, he served in a variety of finance roles at Ford Motor Co. for eight years. Mr. Anderson holds a bachelor's degree in economics from The University of Texas at Austin and an MBA from Southern Methodist University in Dallas. He will spend substantially all of his time managing the affairs of the partnership.

Scott G. Spendlove – Chief Financial Officer, Vice President and Director

Mr. Spendlove has been the chief financial officer, principal accounting officer and vice president of Tesoro Logistics GP since December 2010. He has served as chief financial officer and senior vice president of Tesoro Corporation since May 5, 2010. Mr. Spendlove has served in a variety of senior financial management roles since joining Tesoro in 2002 including Senior Vice President of Risk Management, Vice President of Asset Enhancement & Planning, Vice President of Strategy and Long-Term Planning, Vice President and Controller, Vice President of Finance and Treasurer. Prior to Tesoro, Mr. Spendlove held various positions in accounting, finance and investor relations at Ultramar Diamond Shamrock Corporation and Unocal beginning in 1997. Mr. Spendlove holds a bachelor's degree in accounting from Brigham Young University and an MBA from California State University. He initially expects to spend 20% of his time managing the business of the partnership.

Ralph J. Grimmer – Vice President Operations

Mr. Grimmer has been Vice President of Operations of Tesoro Logistics GP since December 2010 and is responsible for Tesoro's pipelines and refined product terminals, crude oil and refined products trucking, and rail operations. He joined Tesoro in 2006 and has held various operational roles including Vice President, Logistics; Vice President, Competitor Analysis; Vice President, Mergers and Acquisitions; and Vice President, Strategic Analysis. Prior to joining Tesoro, Mr. Grimmer served in a variety of consulting, marketing and logistics positions with Baker & O'Brien and Motiva Enterprises. Mr. Grimmer began his career with Texaco in 1974 as a ;r after receiving a bachelor's degree in chemical engineering from Texas Tech University. He initially expects to spend 70% of his time managing the business of the partnership.

Valuation

Using our multi-stage dividend discount model (DDM) for the LP units, we calculate a 12-month price target of $28/unit, which implies a yield of 5.7% on our one-year-out distribution estimate of $1.57/unit. Our DDM is based on our distribution estimates for the four quarters starting one year out and then a five-year growth rate of 9% (from the current distribution rate, these assumptions result in an annualized growth rate of 13% over the next five years). We discount our DDM distributions at a rate consistent with our interest rate expectations and the risk associated with an Average risk qualifier. Our risk qualifier considers and weighs various risk factors, including TLLP's trading liquidity, debt to forward EBITDA of 0.9x, forward total unit coverage of 1.1x, diversification, and commodity exposure.

Price Target Impediment

Among the key issues that could impede our price target are:

- Acquisition risk;
- Damage to pipeline infrastructure;
- Commodity price risks;
- TLL is dependent on Tesoro Corp parent for substantially all of its revenue, so any inability to meet its requirements with Tesoro would negatively impact results.
- Trading liquidity in the units is relatively low; and
- Other risks, including prolonged declines in volumes, interest rates, and regulatory risk.

Company Description

TLLP is a growth oriented MLP formed by Tesoro to operate its gathering and processing and short-haul pipelines, trucking and terminalling logistics assets. The partnership intends to operate its assets under long-term, minimum volume contracts with Tesoro and pursue asset drop-down growth opportunities. The initial assets are strategically located near Tesoro refineries in the Bakken Shale, West Coast, Rockies and Alaska with potential drop-downs near existing infrastructure.

($ in MM, except per share data & ratios)	2011 Quarterly Results				2012 Quarterly Results						
	Q111E	Q211E	Q311E	Q411E	Q112E	Q212E	Q312E	Q412E	FY11E	FY12E	FY13E
Crude Oil Gathering	12.1	12.5	12.9	13.1	13.2	13.6	14.3	15.0	50.6	56.1	61.8
Terminalling, Transport. & Storage	10.9	11.2	11.4	13.4	13.4	15.9	16.5	19.0	46.9	64.8	85.5
Total Revenue	$23.0	$23.7	$24.3	$26.5	$26.6	$29.5	$30.9	$34.0	$97.5	$120.9	$147.3
Total Costs and Expenses	12.9	13.1	13.4	14.9	15.0	16.7	17.2	19.0	54.3	67.9	81.6
Operating Income	$10.1	$10.6	$10.9	$11.6	$11.6	$12.8	$13.6	$14.9	$43.2	$53.0	$65.7
Interest Expense	-	(0.3)	(0.7)	(1.0)	(1.4)	(1.7)	(2.0)	(2.3)	(2.0)	(7.4)	(12.5)
Net Income	$10.1	$10.3	$10.2	$10.6	$10.3	$11.1	$11.6	$12.6	$41.2	$45.6	$53.1
General Partner Interest	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.8	0.9	1.1
LP Interest In Net Income	$9.9	$10.1	$10.0	$10.4	$10.1	$10.9	$11.4	$12.3	$40.3	$44.7	$52.1
Diluted Earnings (loss) per Unit		$0.33	$0.33	$0.34	$0.33	$0.36	$0.37	$0.40	$1.00	$1.46	$1.71
Average Units Outstanding	-	30.5	30.5	30.5	30.5	30.5	30.5	30.5	22.9	30.5	30.5
Adjusted EBITDA	$12.3	$12.8	$13.2	$14.4	$14.6	$16.3	$17.1	$19.0	$52.7	$67.0	$84.6
Distributable Cash Flow											
Adjusted EBITDA	$12.3	$12.8	$13.2	$14.4	$14.6	$16.3	$17.1	$19.0	$52.7	$67.0	$84.6
Cash Interest Expense	-	(0.3)	(0.6)	(0.9)	(1.1)	(1.4)	(1.7)	(1.9)	(1.7)	(6.2)	(10.5)
Maintenance CapEx	(0.8)	(1.1)	(1.1)	(1.3)	(1.2)	(1.3)	(1.4)	(1.5)	(4.3)	(5.4)	(6.3)
General Partner Interest	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)	(0.6)	(1.1)	(4.3)
Distributable Cash Flow to LP	$11.5	$11.3	$11.2	$12.1	$12.0	$13.4	$13.8	$15.1	$46.1	$54.4	$63.4
Distributable CF Per Unit		$0.37	$0.37	$0.40	$0.39	$0.44	$0.45	$0.50	$1.14	$1.82	$2.22
Distributions per Unit	-	$0.24142	$0.33825	$0.35325	$0.36825	$0.39325	$0.41825	$0.44325	$0.93292	$1.62300	$2.02300
Common Unit Coverage	-	1.53x	1.09x	1.13x	1.07x	1.11x	1.08x	1.12x	1.22x	1.12x	1.10x
Balance Sheet											
Total Assets	$136.7	$141.3	$142.9	$194.3	$195.1	$244.5	$243.6	$292.5	$194.3	$292.5	$384.9
Total Partners' Capital	129.8	84.3	84.0	84.0	83.3	83.0	82.3	81.7	84.0	81.7	71.9
Net Debt	-	$47.0	$48.8	$99.6	$101.2	$150.2	$149.6	$198.4	$99.6	$198.4	$299.5
Net Debt / TTM EBITDA	.0x	.9x	.9x	1.9x	1.8x	2.6x	2.4x	3.0x	1.9x	3.0x	3.5x
Interest Coverage	-	38.9x	19.6x	14.2x	10.7x	9.6x	8.5x	8.2x	26.1x	9.0x	6.7x

Source: RBC Capital Markets estimates & Company Reports

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