May 31, 2011

WELLS FARGO SECURITIES

Equity Research

Tesoro Logistics L.P.

TLLP: We Are Initiating Coverage With An Outperform Rating

Outperform / V

Sector: Small Cap Pipeline MLPs
Overweight

Initiation of Coverage

- **We Are Initiating Coverage Of Tesoro Logistics L.P. (TLLP) With An Outperform Rating On The Units.** TLLP has (1) 100% fee-based cash flow, (2) a conservative capital structure, and (3) a strong general partner (GP) that is a source for organic growth and drop-down acquisition opportunities, in our view. We forecast a five-year distribution compound annual growth rate (CAGR) of 9.1%, assuming average annual (1) acquisitions of $100 million and (2) growth capex of $25 million. TLLP is likely to trade at a premium to other small-cap pipeline master limited partnerships (MLPs), in our view, given the following factors: (1) it offers investors an attractive way to participate in the anticipated growth in Bakken Shale infrastructure, (2) the partnership's above-average multi-year visible growth outlook, and (3) TLLP's low-risk business model.
- **Visible Growth Tied To Organic Initiatives And Drop-Downs.** TLLP has built-in growth over the next several years, supported by (1) capital expenditures earmarked primarily for Bakken Shale expansions and (2) potential acquisition opportunities. The GP sponsor Tesoro Corporation (TSO) owns additional logistics assets that it could drop down to TLLP over time, potentially more than doubling the partnership's size. Further, TLLP should be an active participant in the third-party acquisition market for midstream assets. Management has stated its intent to use the MLP vehicle to build Tesoro's logistics business.
- **A Low-Risk Profile Supported By Fee-Based Cash Flow, Favorable Contracts, And A Strong Balance Sheet.** TLLP derives 100% of its revenue from fee-based contracts and has limited volumetric risk due to ten-year minimum volume commitments for all of its assets with its key customer TSO. With a debt-to-EBITDA ratio of about 1x, TLLP has the financial flexibility to undertake meaningful investments to develop its logistics franchise, in our view.
- **Customer And Geographic Concentration Risks Exist**. The partnership relies on TSO as the key customer for all of its assets (about 93% of pro forma 2010 EBITDA) and a source for potential drop-downs. Consequently, the partnership is highly dependent on TSO's refining operations, midstream investments, and financial position, in our view. In addition, a majority of TLLP's revenue is derived from its operations in the Bakken Shale (about 53%).

	2010A	2011E		2012E	
DCF/unit		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	NE	$0.35		$0.42	
Q2 (June)	NE	0.36		0.42	
Q3 (Sep.)	NE	0.37		0.44	
Q4 (Dec.)	NE	0.38		0.44	
FY	NE	$1.46		$1.71	
CY	NE	$1.46		$1.71	
FY P/DCF	NM	16.8x		14.3x	
Rev.(MM)	NE	$96		$116	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, = Company is on the Priority Stock List

[1]Q1 2011 and 2011 figures are pro forma estimates

Ticker	TLLP
Price (05/27/2011)	$24.49
52-Week Range:	$22-26
Shares Outstanding: (MM)	30.5
Market Cap.: (MM)	$746.9
S&P 500:	1,331.10
Avg. Daily Vol.:	145,229
Dividend/Yield:	$1.35/5.5%
LT Debt: (MM)	$50.0
LT Debt/Total Cap.:	NM
ROE:	NM
3-5 Yr. Est. Growth Rate:	9.1%
CY 2011 Est. P/DCF/unit-to-Growth:	1.8x
Last Reporting Date:	05/26/2011 Intraday

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Valuation Range: $26.00 to $28.00 from NA to NA
Our valuation range is based on (1) our three-stage distribution discount model, which assumes a required rate of return of 8.5% and a long-term growth rate of 1.25%, and (2) a price-to-distributable cash flow multiple of 15x our 2012 estimate. Risks to the units trading below our valuation range include a slower-than-forecasted rate of acquisitions, dependence on TSO, and geographic concentration.

Investment Thesis:
TLLP is likely to trade at a premium to other small-cap pipeline MLPs, in our view, given the following factors: (1) it offers investors an attractive way to participate in the anticipated growth in Bakken Shale infrastructure, (2) the partnership's above-average multi-year growth outlook from potential drop-down opportunities and organic growth initiatives, and (3) TLLP's low-risk business model. We forecast a five-year distribution CAGR of 9.1%, assuming average annual (1) acquisitions of $100 million and (2) growth capex of $25 million. At least 80% of TLLP's distribution is expected to be tax deferred.

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Please see page 12 for rating definitions, important disclosures and required analyst certifications

Company Description:

Tesoro Logistics, L.P. is a publicly traded MLP that owns and operates a crude oil gathering system in the Bakken Shale, eight refined products terminals that primarily serve the Western United States market, and pipeline and storage assets located in Salt Lake City, Utah. The general partner of TLLP is Tesoro Corporation, which is one of the largest independent refiners in the United States.

I. GP Sponsor Supports Growth From Acquisitions And Stability In Cash Flow

Tesoro Corporation (TSO). TLLP's strategic relationship with its GP sponsor Tesoro Corporation enhances the partnership's growth prospects, in our view. TSO serves as a strong partner to jointly pursue third-party acquisitions and as a source for potential drop-down acquisitions. TSO has a sizeable portfolio of logistics assets, which the partnership could acquire over time to augment distribution growth. As TLLP's largest customer, TSO also supports stability in the partnership's cash flow through its long-term transportation, terminalling, and storage agreements with minimum volume commitments.

Tesoro Corporation is one of the leading independent refining companies in the United States. The company operates seven refineries primarily located in the Western United States with total refining capacity of 664,500 barrels (bbls) per day. In addition to refining assets, the company has a network of 880 retail stations in 15 states that sell transportation fuels primarily under the *Tesoro*, *Shell*, *USA Gasoline*, and *Mirastar* brands. Founded in 1968, TSO was originally focused on the exploration and production of crude oil. In 1969, TLLP purchased its first refinery near Kenai, Alaska. During the 1990s, TSO began to focus on its petroleum and marketing businesses and sold non-core assets including its exploration and production operations. From 1998 to 2002, TSO acquired refineries in Hawaii, Washington, North Dakota, Utah, and California. In 2007, the company acquired the Los Angeles refinery and 278 *Shell*-branded retail stations from Shell Oil Products. During this ten-year period, TSO increased its total refining capacity to 664,500 bbls per day from 72,000 bbls per day. The company is now the second-largest independent refiner and marketer in the United States, with an enterprise value of approximately $5 billion.

II. Investment Highlights

(1) <u>A Play On Infrastructure Development In The Bakken Shale</u>

We believe TLLP offers investors an attractive way to participate in the anticipated growth in Bakken Shale infrastructure. Crude oil gathering revenue from this region (i.e., the High Plains System) is expected to account for 53% of the partnership's total revenue projected for the 12 months ending March 31, 2012 (S-1 guidance). There are several larger MLPs that are investing in the Bakken Shale, but their potential upside is less impactful, in our view, given the relative size and geographic diversity of these partnerships. TLLP owns a crude oil gathering system tied to production from the Bakken Shale/ Williston Basin. The High Plains System includes 700 miles of pipeline with the capacity to deliver up to 70,000 bbls per day to TSO's Mandan, North Dakota refinery and trucking operations that gather about 23,000 bbls per day of crude oil from the region.

We anticipate the expansion of TLLP's footprint in the Bakken Shale to be a driver of organic growth for the partnership over time. TLLP already has committed to one project (i.e., an expansion of its High Plains System by Q2 2012 to accommodate the capacity addition at TSO's Mandan refinery). The partnership has identified other potential opportunities that have not been incorporated in its S-1 guidance. At this juncture, management has not quantified the potential amount of investments. For modeling purposes, we have assumed growth capex of $25 million annually in 2012-16, which may prove to be conservative. TLLP's potential projects in the Bakken Shale include the following:

(1) Expansion of the High Plains System through the construction of additional gathering lines to access new drilling locations.
(2) To establish additional outlet connections between the High Plains System and third-party regional pipelines, which would increase optionality for shippers and capture incremental third-party volume. Management has identified five potential interconnections that it believes could be accomplished with minimal capital: Enbridge's pipelines at Ramburg, North Dakota and Portal at the U.S./Canadian border, and True Companies' Bridger pipeline at Richey, Montana, Belle Fourche pipeline at Fritz, North Dakota, and Little Missouri pipelines at Fryburg, North Dakota.
(3) Increase High Plains System's throughput capacity with additional pumping capacity.
(4) Construction of a rail facility at TSO's Mandan refinery to increase the Williston Basin takeaway capacity for crude oil.

The Bakken Shale is one of the major emerging oil plays in North America. It is a key crude oil resource with approximately 4.0-6.3 billion bbls of recoverable reserves (including the underlying Three Forks formation), according to the North Dakota Department of Mineral Resources. This compares with total U.S. proved reserves of 19.1 billion bbls. The Bakken play is a formation in the Williston Basin, which is spread across parts of North Dakota, South Dakota, Montana, and Canada. Development in the Bakken Shale has accelerated given the favorable crude oil price environment, advancements in drilling technologies, and E&P companies' focus on liquids-rich areas due to more favorable economics. Specifically, the rig count tied to the play in North Dakota has increased 130% year over year, to 128 rigs as of May 6, 2011, from 98 rigs in the comparable year ago period, according to the Land Rig Newsletter. The North Dakota Department of Mineral Resources forecasts that oil production in North Dakota could reach 450,000-700,000 bbls per day within the next 3-7 years. For the U.S. portion of the Williston Basin, crude oil production could ramp up to 550,000-800,000 bbls per day during the 2015-2020 time frame, according to the state agency.

(2) Visible Multiyear Growth Outlook

Current slate of organic growth projects provides visible/meaningful upside potential. TLLP has earmarked $15.5 million of growth capex over the next two years. Incremental cash flow from these projects is expected to result in an 18% year-over-year increase in EBITDA for the 12 months ending March 31, 2013. The sizeable increase is primarily attributable to the attractive returns from enhancing TLLP's existing assets (i.e., an EBITDA multiple of less than 2x) and the relatively small size of the partnership (percentage change is more meaningful off of a smaller base, all else being equal).

As previously noted, TSO plans to increase the capacity at its Mandan refinery by 10,000 bbls per day to 68,000 bbls per day by Q2 2012. TLLP plans to spend about $6.5 million to add pumping, tankage, and truck unloading capacity to its High Plains System to support the Mandan refinery expansion. The partnership is also investing approximately $9 million to increase capacity and enhance its service capabilities at its terminals (e.g., ethanol blending, transmix). Specifically, TLLP is adding 8,000 bbls of storage capacity at Stockton by Q1 2012 for $4.5 million, ethanol blending capabilities at Salt Lake City and Burley in H1 2012 for $2.4 million, and transmix receipt services at its Los Angeles terminal by Q1 2012 for $2.0 million.

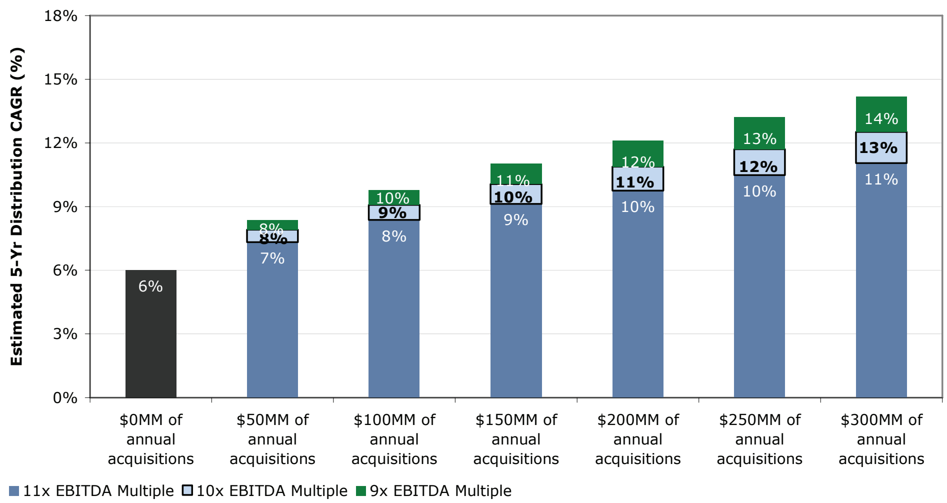
Modest distribution growth even absent acquisitions. According to our model, TLLP is well positioned to deliver a five-year distribution CAGR of 6.0%, assuming the $15.5 million of identified projects noted previously, $25 million of annual growth capex at an average EBITDA multiple of 6.0x in 2012-16, no acquisitions, and a distribution coverage ratio of 1.1x. Alternatively, if we assume that TLLP undertakes $250 million ($50 million annually at an EBITDA multiple of 6.0x) of organic growth initiatives and no acquisitions, this would increase our five-year distribution CAGR estimate to 7.9%, all else equal.

Upside beyond organic growth could potentially come from acquisitions. We forecast a five-year distribution CAGR of 9.1% predicated on assumed acquisitions of approximately $500 million in 2012-16 (or a $100 million transaction each year) completed at an EBITDA multiple of 10x and average annual growth capex of approximately $25 million during that period. Potential acquisitions will likely be a mix of drop-downs from TSO and third-party acquisitions, in our view.

All else being equal, we forecast that a $50 million increase or decrease in our assumed acquisition spending estimate will increase or decrease our five-year distribution CAGR by roughly 1-2%, depending on the EBITDA multiple assumed (i.e., lower multiples imply higher growth leverage from acquisition spending). Figure 1 illustrates the sensitivity of our distribution growth forecast to varying levels of assumed acquisition spending and EBITDA multiples. Key assumptions used in this analysis are as follows:

- Acquisition multiples in the range of 9-11x EBITDA.
- Maintenance capex of approximately 9% of EBITDA, which is in line with TLLP's guidance for the 12 months ending March 31, 2012.
- Acquisitions in 2012 financed 100% with debt given that TLLP currently has only $50 million of debt outstanding. We estimate 50% debt and 50% equity financing thereafter. Finally, we assume a long-term average interest rate of 6.75% and yield of 6.25% for the equity portion of the financing.

Figure 1. Five-Year Distribution CAGR Sensitivity Based On Acquisition Assumptions



Source: Wells Fargo Securities, LLC estimates

Drop-down of TSO's remaining logistics assets could double the size of TLLP. Based on an acquisition multiple of 10x EBITDA, we estimate approximately $660-680 million of immediate drop-down potential for TLLP. Management has not disclosed the earnings generated by TSO's remaining portfolio of midstream assets. However, it did note that the aggregate gross book value of TSO's retained logistics assets was $240 million as of December 31, 2010. This compares with the gross book value of $193 million for the assets currently in TLLP. Assuming that the relative gross book values are proportionate to cash flow, EBITDA of potential drop-down assets could approximate $66 million. Alternatively, we estimate EBITDA of $68 million for TSO's remaining portfolio of midstream assets based on the assets' average throughput in 2009 and 2010, estimated market-based rates, and margins in line with TLLP's S-1 guidance.

Entitled to right of first offer for future TSO midstream divestitures. For a period of ten years after its IPO, TLLP has a right of first offer to acquire certain logistics assets if TSO decides to sell them. Potential drop-down assets include three terminals, two pipelines, and five marine terminals located in Alaska, California, and Washington. Having the right of first offer on substantially all of TSO's potential midstream divestitures should mitigate competition with third parties for future acquisition opportunities, which we view as a significant benefit for the partnership.

(3) TLLP Has A Relatively Low-Risk Business Model And Stable Cash Flow

100% fee-based revenues with no direct commodity exposure. TLLP derives 100% of its cash flow from fee-based, transportation, terminalling, and storage contracts with limited volumetric risk. Essentially, the partnership receives a fee per unit (bbl) handled by its gathering system, terminals, pipelines, and/or storage assets. It does not take title to the product it handles and has no direct exposure to the price of crude oil or refined products. Accordingly, TLLP's cash flow should be relatively stable, in our view. While the partnership has no direct commodity exposure, changes in commodity prices can ultimately affect the partnership's volume. For example, if crude oil prices were to decline significantly, the development of the Bakken Shale could slow down. Consequently, a decrease in producer drilling activity in the region could lower TLLP's future gathering throughput, thereby, decreasing cash flow.

Long-term commercial agreements with TSO bolster stability of cash flow. TSO is the partnership's primary customer and accounted for 93% of TLLP's pro forma 2010 EBITDA. The company is expected to account for 97% of the partnership's revenue for the 12 months ending March 31, 2012, compared to 96% of pro forma 2010 revenue. Notably, TLLP's contracts with TSO are long-term in nature. For the High Plains System, TLLP entered into a ten-year crude oil gathering and transportation agreement and a two-year trucking transportation services agreement with TSO, which is the primary shipper on the system. In addition, TLLP secured a ten-year services agreement for all eight of its terminals and ten-year transportation and storage contracts for its assets in Salt Lake City. All ten-year agreements may be renewed for two additional five-year terms at TSO's option. The trucking contract will automatically be extended for successive two-year terms, up to a maximum of ten years. These long-term agreements should provide the partnership with a reliable stream of cash flow into the future, in our view.

Ten-year minimum volume commitments also mitigate volatility of cash flow. Unlike for many other midstream operators, TLLP's volumetric risk is limited through a minimum volume commitment feature in all of its agreements with TSO. This feature should mitigate the sensitivity of the partnership's cash flow to variability in throughput volume for the first ten years of the partnership's existence. Notably, management estimates that 84% of TLLP's projected revenue for the 12 months ending March 31, 2012, is supported by its minimum volume commitments (i.e., $81.7 million out of $97.3 million). This implies that TLLP's distribution coverage ratio would approximate 0.73x (cash flow deficit of $11.4 million) if the partnership realized only the minimum volume during that time frame and did not realize a commensurate decrease in operating expenses.

Annual fee escalators should offset potential inflationary cost pressures. The High Plains pipeline rate is subject to the Federal Energy Regulatory Commission (FERC) indexing methodology. Based on the formula of PPI plus 2.65%, TLLP should benefit from a 6.8% rate increase in July 2011. TLLP's terminalling fees and Salt Lake City transportation and storage fees are subject to automatic annual escalators. This should help mitigate the impact of potential increases in the partnership's cost structure in the future. The fees are adjusted annually by a percentage equal to the change in the consumer price index. Alternatively, if management is successful in keeping expenses level, the annual rate increases should result in modest margin growth, all else being equal.

(4) Conservative Capital Structure Provides Flexibility To Pursue Growth Objectives

Strong balance sheet. With only $50 million of debt outstanding and a debt-to-EBITDA ratio of 1.0x, TLLP has the financial flexibility to pursue organic growth initiatives and acquisitions, in our view. The partnership has a $150 million revolving credit facility, which expires in April 2014, with a $150 million accordion feature. This provides TLLP the option to meaningfully increase its borrowing capacity in the future. TLLP's total liquidity of $100 million should be more than sufficient to finance its estimated 2011 growth capital expenditures of approximately $8 million.

We believe that TLLP will maintain a strong balance sheet and a relatively conservative capital structure of 50% debt and 50% equity over the long term. We forecast that the partnership could end 2011 and 2012 with a debt-to-EBITDA ratio of 1.1x and 2.6x, respectively. This compares favorably to the median ratio of 4.0x for other small-cap pipeline MLPs.

For 2012, we forecast that TLLP will spend $25 million of growth capex. Our model also incorporates a $100 million acquisition assumption in Q1 financed with 100% debt. We forecast that the partnership could end 2012 with $76 million of liquidity and a debt-to-EBITDA ratio of 2.6x, which compares with the maximum permitted covenant threshold of 4.0x.

IDR reset option enables management to better control cost of capital. Similar to other MLPs, TLLP has an IDR "reset" option in its partnership agreement. The reset option gives management better control of the partnership's cost of capital over the long term and allows TLLP to better compete for acquisitions and/or invest in organic projects that would otherwise not be accretive when the partnership becomes "deep in the splits," in our view. As stipulated by the agreement, the general partner (TSO) holds the right to reset, at higher levels, the minimum quarterly distribution and incentive distribution levels. The cumulative cash flow accruing to the GP would not be altered, but instead, the future cash flow stream is affected.

III. Overview Of TLLP's Assets

TLLP owns and operates crude oil and refined product logistics assets. Specifically, the partnership owns crude oil gathering pipelines and a truck-based crude oil gathering operation tied to production from the Bakken Shale/Williston Basin (i.e., the High Plains System). The system supplies crude oil to TSO's Mandan refinery in North Dakota. In addition, TLLP owns and operates eight refined product terminals with associated storage facilities located primarily in the Western United States, and five short-haul pipelines and storage assets in Salt Lake City, Utah. TLLP's terminalling assets are primarily tied to TSO's refinery operations and play an integral role in helping TSO distribute refined products to market.

Figure 2. Overview Of TLLP Assets

(Barrels per day)	Location	2010 Throughput	Mgmt. Guidance TTM 3/31/12	Total Capacity
Crude Oil Gathering (i.e. High Plains)				
Pipelines	ND and MT	50,695	58,000	70,000
Truck-based crude oil gathering	ND and MT	23,305	22,900	-
Total Throughput		**74,000**	**80,900**	-
Terminalling, Transportation and Storage				
Eight refined products terminals		113,950	115,200	229,000
5 short-haul pipelines	Salt Lake City, UT	60,666	65,800	-
Storage facility	Salt Lake City, UT	-	-	878,000

Source: Partnership reports

We expect TLLP's Crude Oil Gathering Segment (the High Plains System) to account for a significant portion of the partnership's cash flow (i.e., 56% of our pro forma 2011 EBITDA forecast). For the 12 months ending March 31, 2012, management expects the segment to account for approximately 53% of TLLP's total revenue. TSO plans to expand the capacity at its Mandan refinery to 68,000 bbls per day from 58,000 bbls per day (i.e., a 17% increase in total refining capacity). Concurrently, TLLP plans to spend approximately $6-7 million of growth capex on its High Plains system to accommodate the expected capacity increase by Q2 2012. Excluding the impact of potential acquisitions, we believe that the partnership's gathering operations in the Bakken Shale will be the primary driver of growth in the near term (i.e., 58% of 2013 estimated EBITDA (excluding acquisitions), versus 56% of 2011E pro forma EBITDA).

TLLP's Assets In The Bakken Shale

Pipeline operations. Currently, TLLP operates approximately 700 miles of gathering and trunk lines tied to the Bakken Shale/Williston Basin in North Dakota and Montana. The system also has access to Canadian crude oil through connections with third-party pipelines. The partnership gathers crude oil (up to 70,000 bbls per day) for shipment to TSO's Mandan refinery in central North Dakota. TLLP's crude gathering system includes the following:

(1) Approximately 143 miles of up to 6-inch injection lines in western North Dakota and eastern Montana,

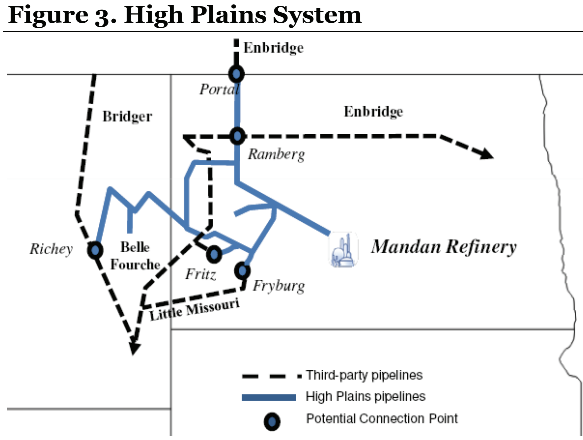
(2) 474 miles of up to 12-inch gathering and trunk lines in Montana and North Dakota, which lead to TLLP's Dunn Center crude storage facility in North Dakota, and

(3) Approximately 88 miles of 16-inch trunk lines, which transport crude oil from the Dunn Center storage facility to TSO's Mandan refinery

As shown in Figure 3, the High Plains System can receive crude oil at connection points with the Bridger pipeline (at Richey, Montana), Enbridge's North Dakota System (at Ramburg, North Dakota), and Enbridge's pipeline on the Canadian border (at Portal, North Dakota).

TLLP's pipelines gathered an average of 50,695 bbls per day and 52,806 bbls per day, respectively, in 2010 and 2009. Management estimates average pipeline volume of approximately 58,000 bbls per day for the 12 months ending March 31, 2012.

Figure 3. High Plains System



Source: Partnership reports

Trucking operations. TLLP also utilizes trucks to gather crude oil from wells that are not connected to gathering pipelines. Local producers contact TLLP when they have crude oil ready to be delivered onto TLLP's High Plains system. TLLP uses both proprietary and third-party trucks to gather crude oil from nearby wells or collection points and deliver onto TLLP's High Plains system through one of the partnership's 13 proprietary truck unloading facilities. TLLP's trucking operation gathered an average of 23,305 bbls per day and 22,963 bbls per day, respectively, in 2010 and 2009. Management estimates that these trucks will gather approximately 22,900 bbls per day of crude oil for the 12 months ending March 31, 2012.

TLLP's Terminalling, Transportation, And Storage Segment

TLLP also operates eight refined product terminals primarily located in the Western United States, with total terminalling capacity of 239,000 bbls per day and storage capacity of 1,627,000 bbls. The terminals are located in the states of California, Idaho, North Dakota, Utah, and Washington. In Salt Lake City, the partnership also owns 13 refined product and crude oil storage tanks with 878,000 bbls of capacity and five short-haul pipelines, which serve TSO's nearby refinery.

Terminals. TLLP's terminals provide distribution, truck loading, storage, inventory management, and blending services to its customers. The partnership's eight terminals primarily receive refined products from pipelines connected to TSO's Los Angeles, Martinez, Salt Lake City, Kenai, Mandan, and Anacortes refineries. Revenue is generated largely from throughput fees for delivering refined product from TLLP's terminals to trucks and barges. TLLP also generates revenue from providing ancillary services such as blending, jet fuel filtering, and additive injections at certain terminals.

Figure 4. Overview Of TLLP's Refined Product Terminals

(In barrels/day) Terminal	Maximum Terminalling Capacity	2010 Avg. Throughput	Storage Capacity (Bbls)	Products Handled: Gasoline	Diesel	Jet Fuel	Supply Source	Mode of Delivery
Los Angeles, CA	48,000	35,286	6,000	✓	✓		TSO Los Angeles Refinery	Truck
Stockton, CA	9,400	8,526	66,000	✓	✓		TSO Martinez Refinery	Truck
Salt Lake City, UT	42,000	25,457	18,000	✓	✓	✓	TSO Salt Lake City Refinery	Truck
Anchorage, AK	63,000	15,132	883,000	✓	✓	✓	Pipeline; Barge	Truck; Barge; Pipeline
Mandan, ND	22,500	9,963	-	✓	✓	✓	TSO Mandan Refinery	Truck
Vancouver, WA	19,600	8,432	298,000	✓	✓		Pipeline; Barge	Truck; Barge
Boise, ID	22,500	7,677	254,000	✓	✓	✓	Pipeline	Truck
Burley, ID	12,000	3,477	147,000	✓	✓		Pipeline	Truck
Total	**239,000**	**113,950**	**1,672,000**					

Note: Includes storage capacity for refined products and ethanol only; excludes storage for gasoline and diesel additives
Source: Partnership reports

TLLP's terminals handle gasoline and gasoline blendstocks, 72% of 2010 volume, diesel fuel, 23%, and jet fuel, 5%. TSO accounted for nearly all (i.e., 92%) of TLLP's terminal volume in 2010. TLLP expects this figure to decrease over time as a result of its efforts to secure additional third-party volume.

Salt Lake City storage facility and pipelines. TLLP owns crude oil and refined product pipelines and an 878,000 bbl storage facility, which exclusively support TSO's 58,000 bbls per day Salt Lake City refinery. These assets were purchased by TSO in 2001 in connection with the acquisition of the Salt Lake City refinery from BP. TLLP's logistics assets facilitate the movement of crude oil and refined products into and out of TSO's Salt Lake City refinery. Approximately 41% of the refinery's yield is distributed via a third-party pipeline to TLLP's Burley and Boise Terminals. Further details of TLLP's Salt Lake City assets follow:

(1) **Crude oil and refined product storage.** TLLP owns 13 crude oil and refined product storage tanks with total shell capacity of 878,000 bbls. The storage tanks are connected to TSO's Salt Lake City refinery though four proprietary pipelines. The crude oil storage tanks supply the Salt Lake City refinery, while the refined product storage tanks store the refinery's product yield including gasoline, diesel, and jet fuel.

(2) **Crude oil pipelines.** TLLP owns three crude oil pipelines (8, 10, and 16 inches), which are each approximately two miles long. These pipelines transport crude oil from a Chevron interstate pipeline and Plains All American's Pacific crude oil pipeline to TLLP's storage facility. Approximately 79% of the Salt Lake City refinery's crude oil feedstock is delivered by TLLP's short-haul crude oil pipelines.

(3) **Refined product pipelines.** TLLP also has two (6 and 8 inch) refined product pipelines, which transport gasoline and diesel three miles from TSO's refinery to Chevron's Northwest Pipeline.

In 2010, TLLP's Salt Lake City pipeline throughput averaged 60,666 bbls per day, versus an average of 62,822 bbls per day in 2009, and the three-year average of 64,126 bbls per day. Management estimates an average throughput of 65,800 bbls per day for the 12 months ending March 31, 2012.

IV. Risks

Risks Specific To TLLP

Customer concentration. In 2010, TSO accounted for 96% of TLLP's total revenue and 92% of the partnership's terminalling throughput. Thus, a disruption to TSO's refinery operations and/or a change in TSO's financial position could negatively affect the partnership's cash flow and future growth.

Slower-than-forecasted drop-downs from TSO. TLLP's distribution growth prospects are highly dependent on acquisitions from its GP sponsor, in our view. If there is a delay in the drop-down of assets to the partnership, TLLP's ability to grow could be slower than forecasted.

Geographic concentration in Bakken Shale. Currently, a majority of TLLP's revenue is derived from its operations in the Bakken Shale region. For the 12 months ending March 31, 2012, TLLP's crude oil gathering system in the Bakken Shale is expected to account for 53% of total revenue. If TSO's Mandan refinery were to experience any disruptions for a prolonged period of time, this could have a negative impact on the partnership's primary source of revenue.

Lower refining margin. A decrease in TSO's refining margin could materially affect the amount of crude oil and refined products handled by TLLP. Margin could deteriorate if crude oil (feedstock) prices increase and/or refined product prices decrease due to lower demand (i.e., economic weakness, high unemployment, inventory levels, etc.). Weak refining margin could cause TSO to reduce refined product production at its refineries, which could result in lower throughput volume for the MLP's assets.

Declining production. The partnership's crude oil gathering volume is dependent on the production profiles of the Bakken Shale. Lower-than-expected production volume, inability to secure incremental volume to offset declining wells, or a decline in drilling activity due to lower crude oil prices or rising costs could negatively affect future earnings and cash flow.

Lower commodity prices. While TLLP currently has no direct commodity price risk, a majority of its revenue is tied to the exploration and production operations of producers in the Bakken Shale. Lower crude oil prices could have the potential to dramatically decrease producers' drilling activity and consequently, the partnership's throughput volume.

Risks Applicable To All Energy MLPs

Legislative risk. The potential for U.S. tax reform, which could result in the corporate taxation of pass-through entities, is a risk for MLPs. Discussion around carried interest, derivative legislation, and cap and trade could also result in headline legislative risk.

Access to capital markets. MLPs are dependent on debt and equity markets to finance growth projects and acquisitions. A dislocation in either of these markets could reduce a partnership's ability to increase distributions, as investments would become more expensive on the margin.

A severe economic downturn. Energy demand is closely linked to overall economic growth. A severe economic downturn could reduce the demand for energy and commodity products, which could result in lower earnings and cash flow.

Interest rate risk. As evidenced from the period 1998-99, MLPs have generally underperformed during periods of rapidly rising interest rates.

Regulatory risk. MLPs are regulated across a number of industries. TLLP's crude gathering assets are subject to state and Federal Energy Regulatory Commission (FERC) regulations. Increased regulations and standards to address safety and environmental concerns could affect an MLP's ability to grow.

Environmental incidents and terrorism. Many MLPs have assets that have been designated by the Department of Homeland Security as potential terrorist targets, such as pipelines and storage assets. A terrorist attack or environmental incident could disrupt the operations of an MLP, which could negatively affect cash flow and earnings in the near term.

V. Valuation

Valuation -- $26-28 Per Unit

Our valuation range is based on a blend of (1) our three-stage distribution discount model, which assumes an 8.5% required rate of return and a long-term growth rate of 1.25%, and (2) a price-to-distributable cash flow multiple of about 15x our 2012 estimate.

Discounted Distribution Model (DDM) Model

Our primary valuation tool is a three-stage distribution discount model. Our model assumes a required rate of return of 8.5%. For our growth estimates, we have assumed a five-year distribution CAGR of 9.1%, a second-stage growth rate of 2.5%, and a perpetual growth rate of 1.25%. The reduction between our second and perpetual growth rate assumptions reflect the fact that eventually 50% of incremental cash flow at TLLP will accrue to the general partner.

Price-To-Distributable Cash Flow (DCF)

We arrived at $26 per unit for the low end of our valuation range by applying a distributable cash flow multiple of about 15x to our 2012 distributable cash flow estimate. TLLP currently trades a price-to-2012E DCF multiple of 14.3x, versus 10.4x for small-cap pipeline MLPs. Distributable cash flow is defined as the cash available to be distributed to limited unit holders after payments are made for maintenance capital expenditure and cash distributions to the general partner.

TLLP Versus The Small-Cap Pipeline MLP Peer Group

TLLP trades at a yield of 5.5%, an enterprise value (EV)-to-adjusted EBITDA (2012E) multiple of 13.3x, and a price-to-DCF (2012E) multiple of 14.3x. In comparison, small-cap pipeline MLPs trade at a median yield of 6.8%, an EV-to-adjusted EBITDA (2012E) multiple of 10.4x, and a price-to-DCF (2012E) multiple of 10.4x. Notably, on a price-to-DCF-to-growth basis (which is akin to a PEG ratio), TLLP trades at 1.2x, versus 2.1x for the peer group.

The “drop-down” model has proven to be a successful strategy, as evidenced by the premium valuations afforded in the market for MLPs with this business model. Investors seem willing to pay a premium for the visibility of future growth, in our view. MLPs that have drop-down opportunities are not reliant on third-party acquisitions or on finding internal organic projects to fuel growth. While the timing of drop-down acquisitions is not always certain, the market is clearly ascribing a certain value to the growth visibility afforded by having a parent company with significant “MLP-able” assets, in our view. In addition, we believe there is less integration risk with drop-down assets than with third-party acquisitions.

Holly Energy Partners, L.P. (HEP) is a good comparable for TLLP, in our view, given its (1) strategic relationship with its GP sponsor Holly Corporation (HOC), which is an independent petroleum refiner and marketer (similar to TSO), (2) dependence on HOC for throughput, (3) similar asset base (e.g., pipelines and terminals), (4) access to a midstream portfolio of drop-down assets, and (5) largely fee-based cash flow.

Figure 5. TLLP Versus Small-Cap Pipeline MLP Peer Group

		Price		EV / Adj. EBITDA		Price/DCF		Distr. growth ests.			P/DCF-to-
	Ticker	5/27/11	Yield	2011E	2012E	2011E	2012E	1-year	3-year	5-year	growth
Genesis Energy L.P.	GEL	$27.00	6.0%	14.4x	13.4x	13.7x	12.7x	10.5%	9.6%	8.8%	1.3x
Holly Energy Partners L.P.	HEP	$55.00	6.2%	14.4x	14.2x	15.1x	13.3x	5.3%	6.4%	6.3%	2.1x
Martin Midstream Partners L.P.	MMLP	$38.75	7.9%	9.8x	10.0x	11.4x	9.8x	2.3%	4.1%	3.7%	2.4x
TC PipeLines L.P.	TCLP	$46.15	6.5%	12.6x	12.5x	10.6x	10.4x	5.9%	7.1%	6.5%	1.5x
Tesoro Logistics L.P.	**TLLP**	**$24.49**	**5.5%**	**15.2x**	**13.3x**	**16.7x**	**14.3x**	**12.2%**	**11.9%**	**9.1%**	**1.2x**
Transmontaigne Partners L.P.	TLP	$34.76	7.0%	11.5x	11.4x	9.4x	9.7x	3.7%	4.6%	4.6%	2.1x
Small Cap Pipeline MLPs Median			**6.8%**	**10.9x**	**10.4x**	**11.4x**	**10.4x**	**4.3%**	**5.4%**	**5.4%**	**2.1x**

Source: Partnership reports, FactSet, and Wells Fargo Securities, LLC estimates

VI) Financial Overview And Model Assumptions

Overview Of 2011 Estimates

For 2011, we have forecasted pro forma EBITDA and DCF per unit of $52.0 million and $1.46, respectively. Based on our distribution estimate of $1.35 per unit, we forecast a coverage ratio of 1.08x in 2011E (or excess cash flow of $3.4 million).

Our 2011 estimates are based on the following:

- Total capex spending of $12.4 million, which consists of the following:
    - Maintenance capex of $4.6 million (9% of EBITDA);
    - Growth capex of $7.8 million;
- Average High Plains System (crude oil gathering) throughput of 79,967 bbls per day
    - Pipeline throughput of 51,137 bbls per day;
    - Trucking volume of 22,830 bbls per day:
- Average refined products terminalled of 115,718 bbls per day
- Average Salt Lake City short-haul pipelines throughput of 63,840 bbls per day
- Salt Lake City storage capacity reserved of 878,000 bbls

Overview Of 2012 Estimates

We have assumed TLLP completes a $100 million acquisition at an EBITDA multiple of 10x in Q1 2012E and invests $25 million in growth capex. We have forecasted EBITDA and DCF per unit of $68.1 million and $1.71, respectively. Based on our distribution estimate of $1.52 per unit, we forecast a coverage ratio of 1.13x in 2012E (or excess cash flow of $6.1 million). Our 2012 distribution forecast represents a 12.2% increase over our 2011 distribution estimate. Excluding our $100 million acquisition assumptions, we estimate that TLLP will generate $58.1 million of EBITDA and DCF per unit of $1.60.

Our 2012 estimates are based on the following:

- Total capex spending of $131 million, which consists of the following:
    - Maintenance capex of $6.0 million (9% of EBITDA);
    - Growth capex of $25.0 million;
    - Assumed acquisition capex of $100 million;
- Average High Plains System (crude oil gathering) throughput of 90,528 bbls per day
    - Pipeline throughput of 67,545 bbls per day – the projected 18% year-over-year increase reflects the anticipated benefit of 2011-12 growth capex and assumes no material change in pipeline rates;
    - Trucking volumes of 22,983 bbls per day:
- Average refined products terminalled of 124,192 bbls per day
- Average Salt Lake City short-haul pipelines throughput of 68,243 bbls per day
- Salt Lake City storage capacity reserved of 878,000 bbls

Figure 6. TLLP Operational Summary

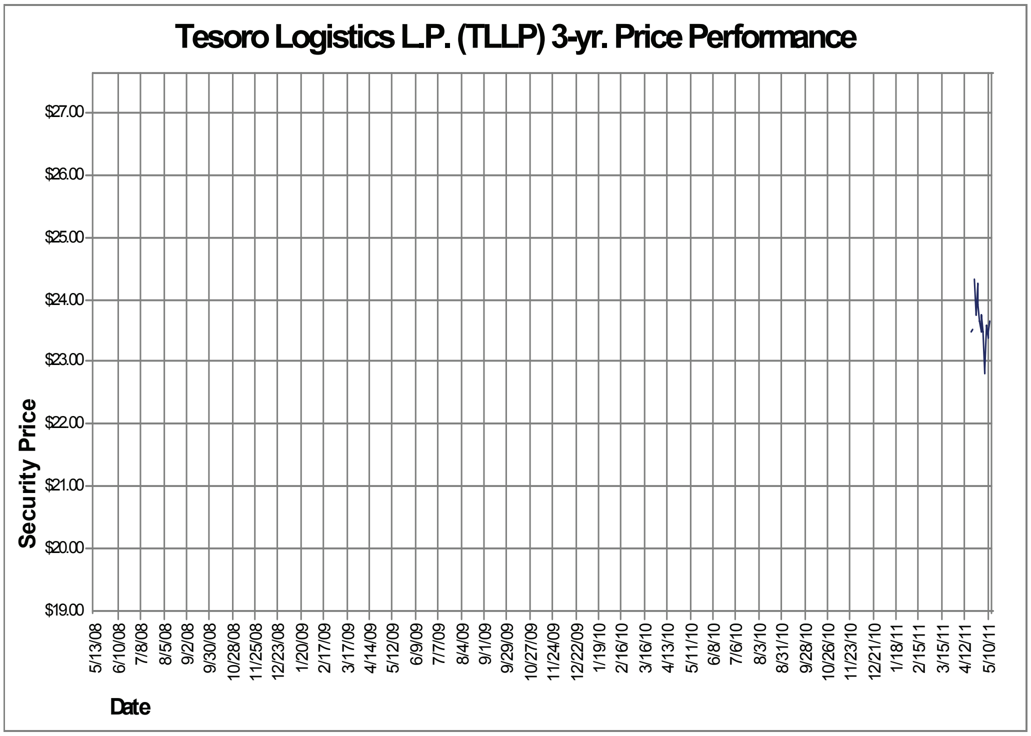
TESORO LOGISTICS, L.P. (TLLP) - OPERATIONAL SUMMARY

Year ended December 31
($ in millions, except for per unit data)

	Q1'11A	Q2'11E	Q3'11E	Q4'11E	PF2011E	Q1'12E	Q2'12E	Q3'12E	Q4'12E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E
Crude oil pipeline throughput (Bbls/d)	55,500	56,487	57,625	58,936	57,137	58,986	68,096	71,092	72,006	67,545	79,483	84,513	91,172	97,392
Yr/Yr % Change						*6.3%*	*20.6%*	*23.4%*	*22.2%*	*18.2%*	*17.7%*	*6.3%*	*7.9%*	*6.8%*
Trucking volume (Bbls/d)	22,700	22,781	22,870	22,970	22,830	22,975	22,980	22,985	22,990	22,983	23,312	23,528	23,815	24,082
Yr/Yr % Change						*1.2%*	*0.9%*	*0.5%*	*0.1%*	*0.7%*	*1.4%*	*0.9%*	*1.2%*	*1.1%*
Terminal throughput (Bbls/d)	116,800	116,036	115,337	114,700	115,718	114,774	127,331	127,331	127,331	124,192	127,674	127,882	129,668	132,346
Yr/Yr % Change						*-1.7%*	*9.7%*	*10.4%*	*11.0%*	*7.3%*	*2.8%*	*0.2%*	*1.4%*	*2.1%*
Short-haul pipeline throughput (Bbls/d)	60,300	62,234	64,762	68,066	63,840	68,136	68,207	68,278	68,349	68,243	68,530	68,638	69,577	70,982
Yr/Yr % Change						*13.0%*	*9.6%*	*5.4%*	*0.4%*	*6.9%*	*0.4%*	*0.2%*	*1.4%*	*2.0%*
Storage capacity reserved (Bbls)	878,000	878,000	878,000	878,000	878,000	878,000	878,000	878,000	878,000	878,000	878,000	878,000	878,000	878,000
Yr/Yr % Change						*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
EBITDA By Segment														
Crude oil gathering	6.9	7.1	7.5	7.7	29.2	7.5	8.1	8.6	8.6	32.8	37.7	41.3	45.2	49.0
% of Total	*55.2%*	*55.7%*	*56.5%*	*57.1%*	*56.1%*	*48.0%*	*48.0%*	*48.3%*	*48.5%*	*48.2%*	*44.5%*	*41.3%*	*39.2%*	*37.5%*
Terminalling, transportation, and storage	6.4	6.5	6.6	6.6	26.0	6.4	7.1	7.5	7.5	28.5	30.4	31.9	33.2	34.7
% of Total	*51.2%*	*50.5%*	*49.5%*	*48.9%*	*50.0%*	*41.2%*	*41.9%*	*42.1%*	*42.0%*	*41.8%*	*35.8%*	*31.9%*	*28.8%*	*26.6%*
Other	(0.8)	(0.8)	(0.8)	(0.8)	(3.2)	(0.8)	(0.8)	(0.8)	(0.8)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)
Assumed Drop-Downs	-	-	-	-	-	2.5	2.5	2.5	2.5	10.0	20.0	30.0	40.0	50.0
% of Total	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*16.0%*	*14.8%*	*14.1%*	*14.0%*	*14.7%*	*23.6%*	*30.0%*	*34.7%*	*38.3%*
Total EBITDA	**12.5**	**12.8**	**13.2**	**13.5**	**52.0**	**15.7**	**16.9**	**17.8**	**17.8**	**68.1**	**84.9**	**100.0**	**115.2**	**130.5**
EPU	**$0.32**	**$0.32**	**$0.33**	**$0.34**	**$1.32**	**$0.35**	**$0.35**	**$0.37**	**$0.36**	**$1.44**	**$1.59**	**$1.70**	**$1.78**	**$1.84**
Average Units Outstanding	30.5	30.5	30.5	30.5	30.5	30.5	30.5	30.5	30.5	30.5	30.7	32.0	33.6	35.1
Distributable Cash Flow (DCF)														
Adjusted EBITDA	12.5	12.8	13.2	13.5	52.0	15.7	16.9	17.8	17.8	68.1	84.9	100.0	115.2	130.5
(-) Interest expense	0.5	0.5	0.5	0.5	2.0	1.3	2.3	2.6	2.6	8.9	15.5	20.2	24.7	29.3
(-) Maintenance capital expenditure	1.1	1.1	1.2	1.2	4.6	1.4	1.5	1.6	1.6	6.0	7.4	8.7	10.1	11.4
(-) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Available cash flow	10.9	11.2	11.6	11.8	45.5	13.0	13.1	13.6	13.6	53.3	62.0	71.0	80.4	89.7
General Partner's Interest	0.2	0.2	0.2	0.2	0.8	0.2	0.2	0.2	0.3	1.0	2.4	4.0	5.6	8.0
Distributable Cash Flow	10.7	11.0	11.4	11.6	44.6	12.8	12.8	13.4	13.3	52.3	59.6	67.0	74.8	81.7
DCF Per Unit	**$0.35**	**$0.36**	**$0.37**	**$0.38**	**$1.46**	**$0.42**	**$0.42**	**$0.44**	**$0.44**	**$1.71**	**$1.94**	**$2.10**	**$2.23**	**$2.33**
Distribution Declared Per Unit	**$0.34**	**$0.34**	**$0.34**	**$0.34**	**$1.35**	**$0.35**	**$0.37**	**$0.39**	**$0.41**	**$1.52**	**$1.75**	**$1.89**	**$2.01**	**$2.09**
Yr/Yr % Change						*4.4%*	*9.6%*	*14.8%*	*20.0%*	*12.2%*	*15.7%*	*7.8%*	*6.1%*	*4.0%*
Distribution Coverage	1.04x	1.06x	1.10x	1.12x	1.08x	1.18x	1.13x	1.13x	1.07x	1.13x	1.10x	1.10x	1.10x	1.10x
Excess Cash Flow (Deficit)	0.4	0.7	1.1	1.3	3.4	2.0	1.6	1.5	0.9	6.1	5.4	6.2	7.0	8.1
% of Total Cash Distribution														
General Partner	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.6%	2.2%	4.2%	6.1%	7.6%	9.9%
Limited Partners	98.0%	98.0%	98.0%	98.0%	98.0%	98.0%	98.0%	98.0%	97.4%	97.8%	95.8%	93.9%	92.4%	90.1%
Capital Expenditures														
Acquisition Capex	-	-	-	-	-	100.0	-	-	-	100.0	100.0	100.0	100.0	100.0
Growth Capex	-	2.6	2.6	2.6	7.8	6.9	9.4	4.3	4.3	25.0	25.0	25.0	25.0	25.0
Maintenance Capex	1.1	1.1	1.2	1.2	4.6	1.4	1.5	1.6	1.6	6.0	7.4	8.7	10.1	11.4
Total Capex	**1.1**	**3.7**	**3.8**	**3.8**	**12.4**	**108.3**	**10.9**	**5.9**	**5.9**	**131.0**	**132.4**	**133.7**	**135.1**	**136.4**
Credit Metrics														
Equity Issuances	-	-	-	-	-	-	-	-	-	-	50	50	50	50
Total Debt	50	52	54	56	56	161	169	171	174	174	244	313	381	449
TTM EBITDA				52	52	55	59	64	68	68	85	100	115	130
Debt/EBITDA (TTM)				1.1x	1.1x	2.9x	2.8x	2.7x	2.6x	2.6x	2.9x	3.1x	3.3x	3.4x
Debt/ annualized EBITDA	1.0x	1.0x	1.0x	1.0x	-	2.6x	2.5x	2.4x	2.4x	-	-	-	-	-
EBITDA/Interest Expense (TTM)				26.4x	26.4x	19.8x	12.8x	9.5x	7.7x	7.7x	5.5x	4.9x	4.7x	4.4x
EBITDA/Interest Expense	26.3x	26.6x	26.6x	26.1x	26.4x	12.2x	7.3x	6.8x	6.7x	7.7x	5.5x	4.9x	4.7x	4.4x
Maintenance capex as % of EBITDA	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%	9%

Note: Q1 2011 are pro forma figures.
Source: Wells Fargo Securities, LLC estimates

Required Disclosures



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
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