December 12, 2011

WELLS FARGO SECURITIES

Equity Research

Tesoro Logistics L.P.

TLLP:Bakken Opportunities Accelerating Growth-Raising Val & Ests

Outperform / V

Sector: Small Cap Pipeline MLPs
Overweight

- **Key Takeaways.** TLLP is poised to deliver one of the highest distribution growth rates in the MLP sector (i.e. estimated five-year CAGR of 14.1% versus a median of 5.8% for all MLPs under coverage). Near-term growth is highly visible and supported by the announced dropdown of the Martinez marine terminal and organic growth initiatives in 2011-13 primarily driven by activities in the Bakken Shale. Although the anticipated EBITDA contribution from TLLP's first acquisition from GP sponsor Tesoro Corporation (TSO) is slightly below our previous forecast (i.e. $8MM versus $10MM), TLLP's growth capex budget of $100MM for 2011-13 is well above our previous estimate of $68MM. TLLP anticipates its 2013E EBITDA of about $100MM, equal to a 61% increase from the current $62MM run rate. Given TLLP's enhanced growth outlook, we are raising our valuation range by $5 to $31-33 per unit to reflect a higher estimated five-year distribution CAGR of 14.1% versus 10.0% previously. We are also increasing our 2012E DCF per unit to $2.10 from $1.98 to reflect higher estimated volumes for the High Plains System and TLLP's terminals segment based on announced projects. We maintain our favorable outlook on TLLP. TLLP's above-average growth prospects are supported by its participation in the development of Bakken shale infrastructure and additional potential dropdowns.
- **Organic Investments Should Yield Attractive Returns And Significant Volume Growth**. TLLP plans to invest $100MM of growth capex through 2013 and expects the projects will generate $30MM of EBITDA, implying an attractive average multiple of 3.3x. TLLP has earmarked 60% of spending to grow its Bakken business, which should increase gathering volumes by 50Mbbls/d (i.e. total estimated volumes to exceed 100Mbbls/d versus 59.5Mbbls/d in Q3 2011) and trucking volumes by 11Mbbls/d (i.e. total estimated volumes of 35Mbbls/d versus 23.9Mbbls/d in Q3 2011) by 2013. The remaining $40MM of growth capex is related to projects to expand TLLP's terminal capacities and services, which should increase volumes by more than 40Mbbls/d by year-end 2013.
- **First Drop-Down Transaction Should Be Highly Accretive**. TLLP plans to acquire the Martinez marine terminal. TLLP projects annual EBITDA of $8MM from the asset. Assuming an acquisition cost of $75MM, this implies an EBITDA multiple of 9.4x. We estimate the acquisition could be $0.17 accretive to DCF per unit based on TLLP's financing plans (100% with its credit facility).

Valuation Range: $31.00 to $33.00 from $26.00 to $28.00
Our valuation range is based on (1) our three-stage distribution discount model, which assumes a required rate of return of 9% and a long-term growth rate of 1.25%, and (2) a price-to-DCF 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. At least 80% of TLLP's distribution is expected to be tax deferred.

Earnings Estimates Revised Up

DCF/unit	2010A	2011E Curr.	2011E Prior	2012E Curr.	2012E Prior
Q1 (Mar.)	NA	$0.38 A	NC	**$0.45**	**0.49**
Q2 (June)	NA	0.43 A	NC	**0.54**	**0.48**
Q3 (Sep.)	NA	0.56 A	NC	**0.55**	**0.51**
Q4 (Dec.)	NA	0.44	NC	**0.56**	**0.50**
FY	NA	$1.81	NC	**$2.10**	**1.98**
CY	NA	$1.81		$2.10	
FY P/DCF	NM	17.4x		15.0x	
Rev.(MM)	NE	$101		$131	

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

Ticker	TLLP
Price (12/12/2011)	$31.56
52-Week Range:	$21-32
Shares Outstanding: (MM)	30.5
Market Cap.: (MM)	$962.6
S&P 500:	1,236.47
Avg. Daily Vol.:	47,594
Dividend/Yield:	$1.40/4.4%
LT Debt: (MM)	$50.0
LT Debt/Total Cap.:	NM
ROE:	NM
3-5 Yr. Est. Growth Rate:	14.0%
CY 2011 Est. P/DCF/unit-to-Growth:	1.2x
Last Reporting Date:	11/08/2011 Before Open

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

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Please see page 9 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.

Raising TLLP Valuation To $31-33 Per Unit On Accelerated Distr. Growth Outlook

We are raising our valuation range to $31-33 from $26-28 per unit to reflect a higher forecast five-year distribution compound annual growth rate (CAGR) of 14.1% versus our previous estimate of 10.0%. Our accelerated distribution growth outlook is supported by TLLP's higher-than-anticipated growth capex budget for 2011-13 (i.e. $100MM versus our previous estimate of $68MM), which is also expected to generate a more-attractive average return relative to our previous assumption (i.e. EBITDA multiple of 3.3x versus our previous estimate of 3.8x). For 2011-16, we are now forecasting total growth capex of $299MM at an average return of 4.3x EBITDA, up from our previous estimate of $143MM of expenditures at an average return of 4.7x EBITDA.

We are also assuming TLLP's first dropdown (i.e. the Martinez crude oil marine terminal) will be a $75MM acquisition (or a 9.375x EBITDA multiple) to be completed by Q2 2012 versus our previous assumption of a $100MM transaction consummated at a 10x EBITDA multiple in Q1 2012. We continue to forecast a $100MM dropdown in 2013 and $150MM of annual dropdowns at an EBITDA multiple of 10x in 2014-16.

Our valuation range of $31-33 per unit is predicated on a combination of a dividend discount model (DDM) and price-to-DCF multiple. Our DDM yields a valuation of $33 per unit, and assumes a long-term distribution growth rate of 1.25%, and a required rate of return of 9.0%. The low-end of our valuation range reflects a price-to-DCF multiple of about 15x our 2012 DCF per unit estimate of $2.10. Risks to the units trading below our range include slower-than-forecast rate of acquisitions, dependence on TSO, and geographic concentration.

Figure 1. Summary Of Changes To TLLP Distribution Growth Estimates

$ in millions	2011E	2012E	2013E	2014E	2015E	2016E	Total/Avg
REVISED:							
Growth capex assumptions	$10	$64	$75	$50	$50	$50	$299
Investment multiple							4.3x
Associated EBITDA							$70
Drop-downs	$0	$75	$100	$150	$150	$150	9.9x
Adjusted DCF per unit	$1.81	$2.10	$2.66	$2.65	$2.78	$2.89	
Distribution per unit	**$1.39**	**$1.61**	**$2.00**	**$2.35**	**$2.52**	**$2.68**	
% y/yr distribution growth	*3%*	*16%*	*24%*	*18%*	*8%*	*6%*	**14%**
Distribution coverage ratio	1.3x	1.3x	1.3x	1.1x	1.1x	1.1x	1.2x
PREVIOUS:							
Growth capex assumptions	$12	$31	$25	$25	$25	$25	$143
Investment multiple							4.7x
Associated EBITDA							$31
Drop-downs	$0	$100	$100	$150	$150	$150	10.0x
Adjusted DCF per unit	$1.81	$1.98	$2.18	$2.29	$2.36	$2.43	
Distribution per unit	**$1.39**	**$1.59**	**$1.83**	**$2.04**	**$2.15**	**$2.23**	
% y/yr distribution growth	*3%*	*15%*	*15%*	*11%*	*6%*	*4%*	**10%**
Distribution coverage ratio	1.3x	1.2x	1.2x	1.1x	1.1x	1.1x	1.2x

Source: Wells Fargo Securities, LLC estimates

TLLP currently yields 4.4% and trades at 2011E and 2012E price-to-distributable cash flow multiples of 17.5x and 15.1x, respectively. This compares to small-cap pipeline MLP peer group medians of 7.2%, 10.9x, and 9.6x respectively. On a price/DCF-to-growth (analogous to PEG) basis, TLLP is trading at an attractive ratio of 0.8x, in our view, versus the peer median of 2.1x.

Figure 2. TLLP Versus Peer Group

	Current Price	Current Yield	Price/DCF 2011E	Price/DCF 2012E	Distrib. Growth Est. 2012E	Distrib. Growth Est. 3-Year	P/DCF To Growth Ratio
Tesoro Logistics LP	$31.56	4.4%	17.5x	15.1x	15.7%	19.1%	0.8x
Small Cap Pipeline MLP Median		7.2%	10.9x	9.6x	4.6%	4.7%	2.1x

Source: FactSet and Wells Fargo Securities, LLC estimates

Our Distribution Forecast Could Prove Conservative Based On TLLP's Target Coverage Ratio

TLLP targets a distribution coverage ratio of 1.1x. Based on our 2012 and 2013 coverage ratio forecasts of 1.3x, this suggests that annual distribution growth in 2012 and 2013 could exceed our estimates of 16% and 24%, respectively, if management opts to pay out more cash flow, in line with its coverage target. We estimate that TLLP could increase its 2012 and 2013 distribution per unit by 32% and 20%, respectively, assuming a distribution coverage ratio of 1.1x. Under this scenario, however, the projected five-year distribution CAGR remains 14%, as TLLP's higher near-term growth potential is essentially offset by lower growth rates for the later years. Hence, our DDM-based valuation of $33 per unit would be unchanged.

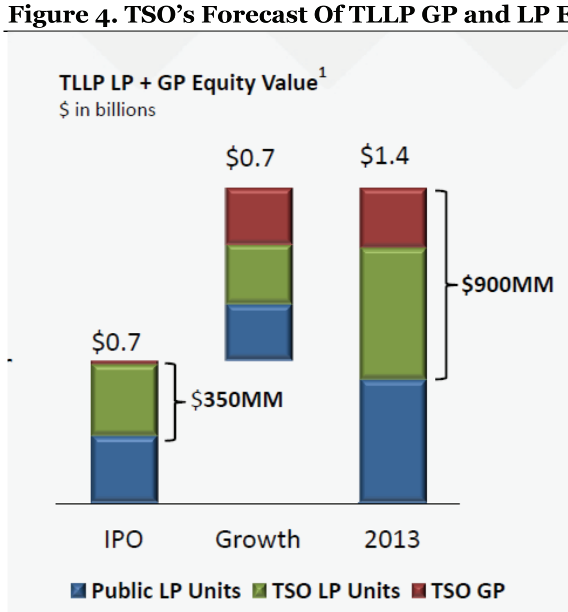
Figure 3. TLLP Distribution Growth Estimates Assuming A Coverage Ratio Of 1.1x

$ in millions	2011E	2012E	2013E	2014E	2015E	2016E	Total/Avg
Distribution per unit	**$1.39**	**$1.84**	**$2.21**	**$2.33**	**$2.45**	**$2.65**	
% y/yr distribution growth	*3%*	*32%*	*20%*	*5%*	*5%*	*8%*	**14%**
Distribution coverage ratio	1.3x	1.1x	1.1x	1.1x	1.1x	1.1x	1.1x

Source: Wells Fargo Securities, LLC estimates

Notably, TSO's analyst/investor day presentation on December 5, 2011, contains a slide on the company's expectations for the equity value of TLLP to increase to $1.4B in 2013 from $0.7B at its IPO. Growth of $0.7B in value appears to be split about two-thirds to the LP units and one-third to the GP, which implies an incremental GP equity value of approximately $235MM. Assuming a cash flow multiple of 22x for the GP, this would imply approximately $11MM of distributions to the GP in 2013. This is in line with the estimated distributions to the GP based on a 2013 distribution per unit of $2.21 assuming a distribution coverage ratio of 1.1x (see Figure 3). Assuming a 2013 GP equity value of about $235MM, the 2013 LP equity value would approximate $1.165B, or $38.18 per LP unit ($1.165B/30.5MM units). Based on a 2013 distribution per unit of $2.21 (under the 1.1x coverage scenario) and a stock price of $38.18 for TLLP, this implies a yield of 5.8% versus the current yield of 4.4%.

Figure 4. TSO's Forecast Of TLLP GP and LP Equity Value



Note 1: Expected equity value assumes current public valuation multiples and execution of the 2012 TLLP business plan.

Source: Tesoro Corporation

$100MM Of Organic Investments Should Yield Attractive Returns And Significant Volume Growth

TLLP plans to invest $100MM of growth capex through 2013 and expects the projects will generate an incremental $30MM of EBITDA, which implies an attractive average multiple of 3.3x. The partnership has earmarked 60% of the expenditures to grow its Bakken business (High Plains System), which should result in an increase of about 50Mbbls/d in gathering volumes (i.e. total estimated volumes to exceed 100MBbls/d versus 59.5Mbbls/d in Q3 2011) and an increase of about 11Mbbls/d in trucking volumes (i.e. total estimated volumes of 35Mbbls/d versus 23.9Mbbls/d in Q3 2011) by 2013. The remaining $40MM of growth capex are related to projects to expand TLLP's terminal capacities and services, which should increase volumes by more than 40Mbbls/d by year-end 2013.

Figure 5. Estimated Capex/EBITDA Multiples Through 2013

($ in MM, except multiples)	Crude Oil Gathering	Terminalling, Transportation, and Storage
Previously Identified Growth Capex	7.5	17.5
New Budgeted Growth Capex	52.5	22.5
Total Growth Expenditures	**$60**	**$40**
EBITDA From Previously Identified Growth Capex	6.5	5.0
EBITDA From New Budgeted Growth Capex	16.0	2.5
Total EBITDA	**$22.5**	**$7.5**
Est. EBITDA Multiple For Previously Identified Capex	1.2x	3.5x
Est. EBITDA Multiple For New Budgeted Capex	3.3x	9.0x
Average EBITDA Multiple	**2.7x**	**5.3x**
Total Estimated EBITDA Multiple		**3.3x**

Source: Partnership reports

Crude Oil Gathering (High Plains System). TLLP has budgeted growth capex of $60MM tied to organic growth opportunities in the Bakken Shale, which is expected to generate $20-25MM of incremental EBITDA. TSO is undertaking an expansion of its Mandan Refinery to increase the capacity to 68Mbbls/d from 58Mbbls/d in H1 2012. As the primary source of supply to the refinery, TLLP's High Plains System should realize a 10Mbbls/d increase in gathering volumes when the expansion is placed in service. Additionally, TSO is constructing a unit train (loading and unloading facilities and dedicated rail cars) to deliver up to 30Mbbls/d of Bakken crude oil to its Anacortes refinery by the end of 2012. Management anticipates that this project should result in an increase of 30Mbbls/d in High Plain's volumes and the assets (when completed) would be added to TLLP's portfolio of dropdown candidates. TLLP also plans to invest capital to connect the High Plains System to alternative destinations, which should add 10Mbbls/d of throughput beginning in 2012.

The partnership intends to expand its trucking fleet to help alleviate takeaway constraints in the Bakken. Management expects trucking volumes will increase to 35Mbbls/d from 23.9Mbbls/d in Q3 2011. Notably, TLLP has amended its trucking agreement with TSO, which provides for a longer term and higher fixed minimum volume commitments. The partnership is to charge a mileage-based trucking rate, ranging from $1.95-4.71 per barrel, and a dispatch fee of $0.50-0.55 per barrel instead of a per barrel-based trucking rate, which we estimate is $2.72 per barrel currently. The mileage-based rate is to be adjusted annually based on the rates of third-party trucking carriers transporting crude oil in Montana and North Dakota (subject to certain stated restrictions).

Figure 6. Amendments To TLLP's Trucking Contract With TSO

	Current Trucking Agreement	New Trucking Agreement
Term	2 years	5 years
Renewals	4 x 2 years	1 x 5 years
Fixed Min Volume Commitment (MVC)	22,000 bpd	+5,000 bpd - April 2012 +5,000 bpd - April 2013
Fee Escalators	Annual CPI	Annual Benchmark Adjustments

Note: No changes to refinery shutdown or force majeure termination provisions
Source: Partnership reports

Crude Oil Takeaway Constraints Are Creating Increased Gathering Opportunities

Similar to TLLP, other MLPs have benefitted from higher lease gathering margin in areas where crude oil production is regionally constrained. Demand for infrastructure to transport crude production to market has increased, particularly in the new emerging shale plays. This demand has increased the value of the crude/lease gathering services, allowing crude gatherers (such as Plains All American Pipeline, L.P. [PAA] and Sunoco Logistics Partners, L.P. [SXL]) to increase margin for gathered barrels. The increase in demand for crude lease gathering services is also being driven, in part, by the spread between WTI and Brent (or LLS) crude prices, incentivizing producers to pay a premium to deliver their production barrels to market.

MLPs have responded to the increase in takeaway demand by expanding crude gathering infrastructure; for example, several MLPs have ordered additional crude gathering trucks. PAA intends to expand its fleet by 34%, adding 180 trucks in 2011 to a current fleet of 530 trucks within its supply and logistics segment. SXL plans to expand its truck fleet to 200 by year-end from approximately 140.

We anticipate logistical constraints in crude oil shale plays to persist over the next 12-18 months as regional production outpaces takeaway capacity. While lease gathering margin could decline as additional trucks are placed into service, we believe overall lease gathering cash flow should remain at elevated levels in 2012 as MLPs would essentially be swapping margin for higher volume. Given the recurring nature of this margin, we believe MLPs are likely to pay out the increase in lease gathering profits in the form of higher distributions.

Terminalling, Transportation, And Storage. TLLP is investing $40MM of growth capex through 2013 to expand its terminal capacities and services. The investments should generate $5-10MM of incremental EBITDA and increase terminalling volumes by more than 40Mbbls/d by year-end 2013. The partnership plans to expand the capacity at the Los Angeles, Mandan, and Stockton terminals and grow third-party volumes at Boise, Burley, Vancouver, and Stockton. The partnership also plans to continue its infrastructure optimization efforts (e.g. Los Angeles) and has been successfully in generating an incremental 20Mbbls/d in volumes thus far in 2011.

Details On First Dropdown--Martinez Crude Oil Marine Terminal

TLLP plans to acquire the Martinez Crude Oil (Golden Eagle) Marine Terminal located in Martinez, California, from its GP sponsor TSO. The terminal is located on the Sacramento River near the Golden Eagle Refinery (see description below) and has access to the San Francisco Bay. Assets include a dock, five crude oil storage tanks with 425Mbbls of capacity, and related pipelines. The facility supplies TSO's Golden Eagle refinery and Martinez Terminal with crude oil from marine vessels. The wharf capacity is 145Mbbls/d. The projected volume is 70Mbbls/d (48% utilization) and compares to average crude oil throughput of 49.8Mbbls/d in 2010. TLLP has secured a ten-year (with two five-year renewals) fee-based agreement with TSO with a minimum volume commitment on 90% of projected volumes. The transaction is expected to close in early 2012, and is to be funded through the partnership's revolving credit facility.

Acquisition Should Be Highly Accretive To DCF

Management projects annual EBITDA from the Martinez terminal asset to be $8MM and annual maintenance capex to approximate $0.5MM. Assuming an acquisition cost of $75MM, this implies an EBITDA multiple of 9.4x. Notably, we estimate a $75MM cost for the dropdown based on management's guidance of $1.5MM of incremental annual DD&A expense and the implied average depreciable life of 50 years assumed for TLLP's identified growth projects (i.e. $1.5MM x 50 years=$75MM). Our previous model incorporated a $100MM dropdown in Q1 2012 at an EBITDA multiple of 10.0x.

We estimate the acquisition could be about $0.17 accretive to DCF per unit predicated on the partnership's financing plans (i.e. 100% with its credit facility). Our accretion forecast assumes 2012 annualized EBITDA of $8MM, in line with guidance, 100% short-term financing, an average interest rate of 3.1% on TLLP's revolving credit facility, and maintenance capex of $0.5MM (or 6.25% of EBITDA), in line with guidance. Notably, we estimate the accretion to DCF per unit decreases to about $0.08 assuming 50% equity/50% debt financing at a yield of 4.4% and long term interest rate of 7.5%.

Figure 7. Estimated DCF Accretion

DCF Accretion
Assuming Long-Term Financing

Financial Impact ($MM):	FY2012
EBITDA	$8.0
(-) Maintenance capex	$0.5
(-) Interest expense	$2.8
Available cash flow	$4.7
(-) Incremental GP distribs.	$0.0
Distributable cash flow	$4.6
DCF per unit accretion	**$0.08**
50% equity, 50% LT debt at 7.5%	

DCF Accretion
Assuming Current Financing

Financial Impact ($MM):	FY2012
EBITDA	$8.0
(-) Maintenance capex	$0.5
(-) Interest expense	$2.3
Available cash flow	$5.2
(-) Incremental GP distribs.	$0.0
Distributable cash flow	$5.2
DCF per unit accretion	**$0.17**
100% ST debt at 3.1%	

Source: Partnership reports and Wells Fargo Securities, LLC estimates

Overview of TSO's Martinez Refinery

TSO's Martinez, California, (Golden Eagle) refinery is located approximately 30 miles northeast of San Francisco on 2,206 acres in Martinez, California. It is TSO's largest refinery and the second-largest refinery in northern California, with 166Mbbls/d of refining capacity. In 2010, the Martinez refinery processed an average of 124Mbbls/d of crude oil and other feedstock. It produces transportation fuels including CARB gasoline, CARB diesel fuel, conventional gasoline, diesel fuel, heavy fuel oils, LPG, and petroleum coke.

The Martinez refinery receives crude oil from numerous proprietary and third-party assets. It receives foreign, Alaskan, and California crude oil through its two marine terminals, which have access to the San Francisco Bay, and third-party pipelines. Martinez's refined products are distributed through TLLP's Stockton and soon to be acquired Martinez terminals, TSO's marine and refined products terminal, and third-party terminals.

Balance Sheet/Liquidity Update

The partnership had $118MM of liquidity (including cash) as of the end of Q3 2011. TLLP's 2012 total debt should approximate $177MM (i.e. $51MM outstanding at year-end 2011, $75MM for the Martinez terminal acquisition, and $51MM of 2012 organic capex spending net of excess cash flow. We believe that TLLP will exercise the accordion feature of its credit facility to increase the size to $300MM. This would provide the partnership with the flexibility to undertake additional acquisitions and organic growth initiatives without issuing long-term debt or equity next year. We forecast that the partnership could end 2012 with a pro forma debt-to-EBITDA ratio of 2.3x.

Figure 8. Overview Of 2012 Sources And Uses Of Cash

	($ in millions)	Q1'12A	Q2'12E	Q3'12E	Q4'12E	2012E
Uses Of Cash	**Growth Spending:**					
	Acquisition spending	-	$75	-	-	$75
	Growth capex spending	$18	$17	$15	$14	$64
	Debt Maturies:					
	Long-term debt maturities	-	-	-	-	-
	Total spending	**$18**	**$92**	**$15**	**$14**	**$139**
Sources Of Cash	**Equity Funding:**					
	Secondary equity issuance	-	-	-	-	-
	Excess cash flow	$2	$2	$4	$4	$13
	Cash on hand and other	-	-	-	-	-
	Debt Funding:					
	Long-term debt issuance	-	-	-	-	-
	Credit facility	$16	$90	$11	$10	$126
	Total financing	**$18**	**$92**	**$15**	**$14**	**$139**
	Credit Metrics:					
	Amount drawn on credit facility	$66	$156	$167	$177	$177
	Letters of credit outstanding	$0	$0	$0	$0	$0
	Proforma Debt-to-EBITDA ratio	**0.9x**	**1.9x**	**2.1x**	**2.3x**	**2.3x**

Source: Wells Fargo Securities, LLC estimates

Raising 2012 And 2013 DCF Estimates

We are raising our 2012 and 2013 DCF per unit estimates to $2.10 and $2.66, respectively, from $1.98 and $2.18. Our 2011 DCF per estimate of $1.81 is unchanged. Our 2013 EBITDA forecast of $101MM (excluding a $10MM benefit from our $100MM dropdown assumption in Q1 2013) is essentially in line with management's guidance of $100MM. We are also increasing our 2012 and 2013 distribution per unit estimates to $1.61 and $2.00, respectively, from $1.59 and $1.83.

Our revised 2012 and 2013 DCF estimates reflect the net impact of the following adjustments/assumptions:

1) Estimated annualized EBITDA contribution of $8MM from the acquisition of the Martinez marine terminal assuming the transaction cost $75MM and closes by Q2 2012. This compares to our previous $100MM dropdown assumption in Q1 2012 at an EBITDA multiple of 10x (annualized EBITDA of $10MM).

2) Forecasted 2011-13 growth capex of approximately $150MM (including approximately $50MM of assumed incremental spending above the $100MM of identified projects) and an average return of 3.8x EBITDA. This compares to estimated growth capex of $68MM and an average return of 3.8x incorporated in our previous model.

3) Lower estimated 2012 interest expense of $4.0MM (versus our previous estimate of $7.1MM) based on a smaller estimated dropdown of $75MM financed on TLLP's credit facility at an estimated interest rate of 3.1%. This compares to our previous estimate of a $100MM acquisition funded with debt at an interest rate of 6.5%.

Figure 9. 2012-13 Estimate Changes

($MM, except per unit data)	New 2012E	Old 2012E	Percent Change	New 2013E	Old 2013E	Percent Change
EBITDA						
Crude Oil Gathering	$33.2	$32.1	3.3%	$52.0	$36.9	40.9%
Terminalling, Transportation & Storage	$38.5	$36.5	5.5%	$44.0	$38.9	13.1%
Other, net	($3.2)	($3.2)	0.0%	($3.2)	($3.2)	0.0%
Assumed Drop-Downs	$6.0	$10.0	-	$18.0	$20.0	(10.0%)
Total EBITDA	**$74.5**	$75.4	(1.2%)	**$110.8**	$92.6	19.6%
(-) Interest Expense	$4.0	$7.1	(43.0%)	$15.8	$14.6	8.1%
(-) Maintenance Capex	$5.2	$6.7	(21.9%)	$7.8	$7.9	(1.5%)
(-) Other	$0.0	$0.0	-	$0.0	$0.0	-
Available Cash Flow	$65.3	$61.7	5.8%	$87.2	$70.1	24.4%
(-) GP Interest	$1.3	$1.2	8.7%	$5.7	$3.2	78.9%
Total Distributable Cash Flow	$63.9	$60.5	5.7%	$81.6	$66.9	21.8%
DCF / Unit	**$2.10**	$1.98	5.7%	**$2.66**	$2.18	21.9%
Distribution / Unit	$1.61	$1.59	0.9%	$2.00	$1.83	9.0%
Coverage Ratio	1.3x	1.2x	-	1.3x	1.2x	-
Excess Cash Flow	$15.0	$12.0	25.0%	$20.0	$10.4	91.9%
Net Income	$47.8	$47.9	(0.0%)	$58.3	$53.0	10.1%
LP Income / Unit (EPU)	$1.86	$1.69	10.0%	$2.37	$1.80	31.4%
Average Units Outstanding	30.5	30.5	0.0%	30.7	30.7	(0.0%)

Source: Wells Fargo Securities, LLC estimates

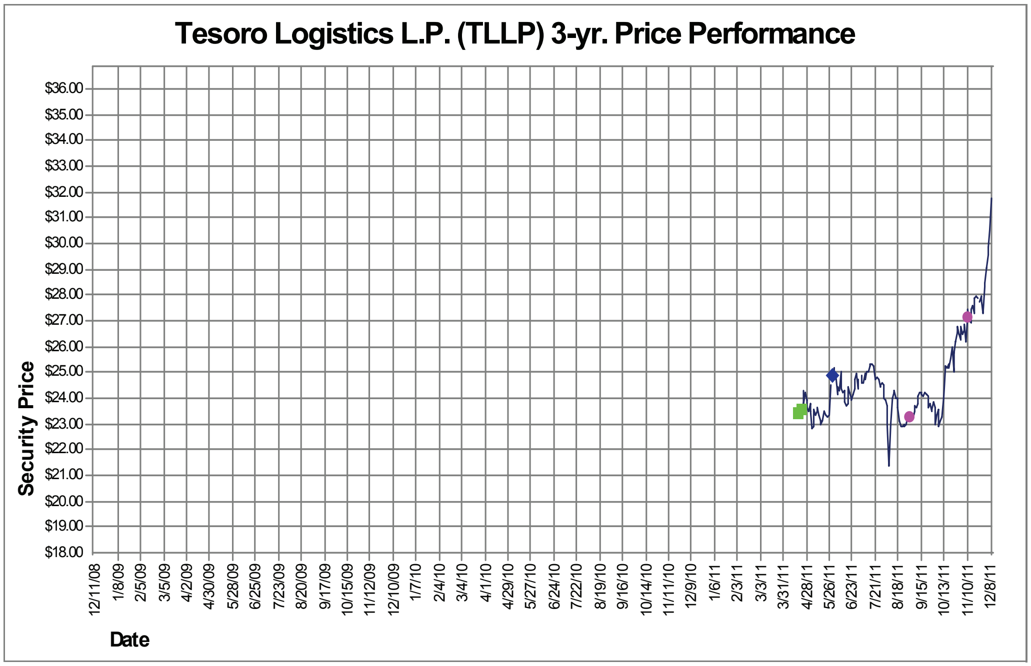
TESORO LOGISTICS, L.P. (TLLP) - OPERATIONAL SUMMARY

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

	Q1'11A	Q2'11A	Q3'11A	Q4'11E	PF2011E	Q1'12E	Q2'12E	Q3'12E	Q4'12E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E
Crude oil pipeline throughput (Bbls/d)	55,301	55,717	59,530	59,530	57,520	62,020	69,516	77,005	94,481	75,755	109,530	118,040	130,109	144,797
Yr/Yr % Change						*12.2%*	*24.8%*	*29.4%*	*58.7%*	*31.7%*	*44.6%*	*7.8%*	*10.2%*	*11.3%*
Trucking volume (Bbls/d)	21,628	23,212	23,879	23,879	23,150	23,879	27,429	31,429	35,429	29,542	35,429	36,168	37,217	38,493
Yr/Yr % Change						*10.4%*	*18.2%*	*31.6%*	*48.4%*	*27.6%*	*19.9%*	*2.1%*	*2.9%*	*3.4%*
Terminal throughput (Bbls/d)	121,546	134,579	144,997	134,852	133,993	139,852	144,852	149,852	157,852	148,102	167,852	173,852	191,658	206,750
Yr/Yr % Change						*15.1%*	*7.6%*	*3.3%*	*17.1%*	*10.5%*	*13.3%*	*3.6%*	*10.2%*	*7.9%*
Short-haul pipeline throughput (Bbls/d)	62,173	71,395	69,658	69,658	68,221	69,658	69,658	69,658	69,658	69,658	69,658	69,658	73,984	77,650
Yr/Yr % Change						*12.0%*	*-2.4%*	*0.0%*	*0.0%*	*2.1%*	*0.0%*	*0.0%*	*6.2%*	*5.0%*
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	6.6	6.7	7.4	7.4	28.1	7.3	8.1	8.9	8.9	33.2	52.0	56.8	62.3	67.9
% of Total	*55.4%*	*48.7%*	*41.7%*	*47.3%*	*47.6%*	*46.6%*	*43.2%*	*44.9%*	*43.9%*	*44.6%*	*46.9%*	*41.9%*	*38.4%*	*36.0%*
Terminalling, transportation, and storage	6.1	8.8	11.5	9.0	35.4	9.1	9.5	9.7	10.2	38.5	44.0	49.0	55.2	60.9
% of Total	*51.3%*	*63.5%*	*64.6%*	*57.8%*	*59.9%*	*58.5%*	*50.4%*	*49.1%*	*50.2%*	*51.7%*	*39.7%*	*36.2%*	*34.0%*	*32.3%*
Other	(0.8)	(1.7)	(1.1)	(0.8)	(4.4)	(0.8)	(0.8)	(0.8)	(0.8)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)
Assumed Drop-Downs	-	-	-	-	-	-	2.0	2.0	2.0	6.0	18.0	33.0	48.0	63.0
% of Total	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*10.6%*	*10.1%*	*9.9%*	*8.1%*	*16.2%*	*24.3%*	*29.6%*	*33.4%*
Total EBITDA	**11.9**	**13.8**	**17.7**	**15.6**	**59.1**	**15.6**	**18.8**	**19.8**	**20.3**	**74.5**	**110.8**	**135.6**	**162.3**	**188.6**
EPU	**$0.30**	**$0.35**	**$0.49**	**$0.40**	**$1.54**	**$0.40**	**$0.48**	**$0.49**	**$0.50**	**$1.86**	**$2.37**	**$2.33**	**$2.42**	**$2.49**
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	32.1	33.8	35.4
Distributable Cash Flow (DCF)														
Adjusted EBITDA	11.9	13.8	17.7	15.6	59.1	15.6	18.8	19.8	20.3	74.5	110.8	135.6	162.3	188.6
(-) Interest expense	0.0	0.0	0.3	0.5	0.8	0.5	0.8	1.3	1.4	4.0	15.8	25.1	34.2	43.7
(-) Maintenance capital expenditure	0.1	0.4	0.3	1.5	2.3	1.1	1.3	1.4	1.4	5.2	7.8	9.5	11.4	13.2
(-) Other	-	-	(0.0)	-	(0.0)	-	-	-	-	-	-	-	-	-
Available cash flow	11.8	13.4	17.2	13.6	56.0	14.0	16.7	17.1	17.5	65.3	87.2	101.0	116.7	131.7
General Partner's Interest	0.2	0.2	0.2	0.2	0.9	0.2	0.3	0.4	0.5	1.3	5.7	15.8	22.6	29.4
Distributable Cash Flow	11.6	13.2	17.0	13.4	55.1	13.7	16.4	16.8	17.0	63.9	81.6	85.2	94.1	102.3
DCF Per Unit	**$0.38**	**$0.43**	**$0.56**	**$0.44**	**$1.81**	**$0.45**	**$0.54**	**$0.55**	**$0.56**	**$2.10**	**$2.66**	**$2.65**	**$2.78**	**$2.89**
Distribution Declared Per Unit	**$0.34**	**$0.34**	**$0.35**	**$0.36**	**$1.39**	**$0.38**	**$0.39**	**$0.41**	**$0.43**	**$1.61**	**$2.00**	**$2.35**	**$2.52**	**$2.68**
Yr/Yr % Change						*11.1%*	*16.3%*	*17.1%*	*17.9%*	*15.7%*	*24.3%*	*17.5%*	*7.6%*	*6.3%*
Distribution Coverage	1.1x	1.3x	1.6x	1.2x	1.3x	1.2x	1.4x	1.3x	1.3x	1.3x	1.3x	1.1x	1.1x	1.1x
Excess Cash Flow (Deficit)	1.3	2.9	6.3	2.3	12.8	2.3	4.5	4.2	4.0	15.0	20.0	9.3	8.3	6.8
% of Total Cash Distribution														
General Partner	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.2%	2.8%	3.6%	2.7%	8.4%	17.2%	20.9%	23.5%
Limited Partners	98.0%	98.0%	98.0%	98.0%	98.0%	98.0%	97.8%	97.2%	96.4%	97.3%	91.6%	82.8%	79.1%	76.5%
Capital Expenditures														
Acquisition Capex	-	-	-	-	-	-	75.0	-	-	75.0	100.0	150.0	150.0	150.0
Growth Capex	0.4	-	2.1	7.1	9.6	17.9	16.8	15.3	14.5	64.4	75.0	50.0	50.0	50.0
Maintenance Capex	0.1	0.4	0.3	1.5	2.3	1.1	1.3	1.4	1.4	5.2	7.8	9.5	11.4	13.2
Total Capex	**0.5**	**0.4**	**2.3**	**8.6**	**11.9**	**19.0**	**93.1**	**16.7**	**15.9**	**144.6**	**182.8**	**209.5**	**211.4**	**213.2**
Credit Metrics														
Equity Issuances	-	-	-	-	-	-	-	-	-	-	50	75	75	75
Total Debt	50	50	50	51	51	66	156	167	177	177	281	395	513	629
TTM EBITDA				59	59	63	68	70	75	75	111	136	162	189
Debt/EBITDA (TTM)				0.9x	0.9x	1.1x	2.3x	2.4x	2.4x	2.4x	2.5x	2.9x	3.2x	3.3x
Pro forma Debt/EBITDA (TTM)				0.9x	0.9x	0.9x	1.9x	2.1x	2.3x	2.3x	2.1x	2.7x	3.0x	3.2x
Debt/ annualized EBITDA	1.0x	0.9x	0.7x	0.8x	-	1.1x	2.1x	2.1x	2.2x	-	-	-	-	-
EBITDA/Interest Expense (TTM)				70.4x	70.4x	46.1x	31.3x	22.2x	18.5x	18.5x	7.0x	5.4x	4.7x	4.3x
EBITDA/Interest Expense	796.5x	912.8x	56.5x	31.4x	70.4x	29.0x	23.0x	15.3x	14.8x	18.5x	7.0x	5.4x	4.7x	4.3x
Maintenance capex as % of EBITDA	1%	3%	1%	10%	4%	7%	7%	7%	7%	7%	7%	7%	7%	7%

Source: Partnership reports and Wells Fargo Securities, LLC estimates

Required Disclosures



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
❐	4/20/2011		IPO at $21.00			
	5/31/2011		Lui			
◆	5/31/2011	24.49	1	26.00	28.00	24.84
●	9/1/2011	23.44	1	25.00	27.00	23.30
●	11/10/2011	25.89	1	26.00	28.00	27.13

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
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