

Equity Research

Tesoro Logistics L.P.

TLLP: We Initiated Coverage With An Outperform Rating

Outperform / V

Sector: Small Cap Pipeline MLPs

Overweight

Initiation of Coverage

- **We Initiated 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%).

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-forecast 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.

Please see page 44 for rating definitions, important disclosures and required analyst certifications

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DCF/unit	2010A	2011E		2012E	
		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	NE	\$0.35	NE	\$0.42	NE
Q2 (June)	NE	0.36	NE	0.42	NE
Q3 (Sep.)	NE	0.37	NE	0.44	NE
Q4 (Dec.)	NE	0.38	NE	0.44	NE
FY	NE	\$1.46	NE	\$1.71	NE
CY	NE	\$1.46		\$1.71	
FYP/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

¹Q1 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.:	143,418
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

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Together we'll go far



TABLE OF CONTENTS

Company Description.....	5
Executive Summary	5
Partnership Formation, Initial Public Offering, And Structure	6
GP Sponsor Supports Growth From Acquisitions And Stability In Cash Flow	7
Tesoro Corporation (TSO).....	7
Why Was Tesoro Logistics Partners Created?	8
Investment Highlights	8
A Play On Infrastructure Development In The Bakken Shale	8
Visible Multiyear Growth Outlook	9
TLLP Has A Relatively Low-Risk Business Model And Stable Cash Flow	12
Conservative Capital Structure Provides Flexibility To Pursue Growth Objectives	15
Overview Of TLLP's Assets	18
TLLP's Assets In The Bakken Shale	18
TLLP's Terminalling, Transportation, And Storage Segment	23
Risks.....	28
Risks Specific To TLLP	28
Risks Applicable To All Energy MLPs.....	28
Valuation	29
Valuation -- \$26-28 Per Unit	29
Discounted Distribution Model (DDM) Model	29
Price-To-Distributable Cash Flow (DCF)	30
TLLP Versus The Small-Cap Pipeline MLP Peer Group	30
Projected Yield As A Check.....	30
Financial Overview And Model Assumptions	31
Overview Of 2011 Estimates	31
Overview Of 2012 Estimates	32
Financial Models.....	33
Appendix	
Overview Of TSO's Portfolio Of Potential Drop-Downs.....	38
TSO's Refining Operations	40
Overview Of Tesoro's Refineries	41
West Coast Crack Spreads Have Historically Been At A Premium To The Gulf Coast Spread	42
MLP Glossary Of Terms.....	43

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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.

Executive Summary

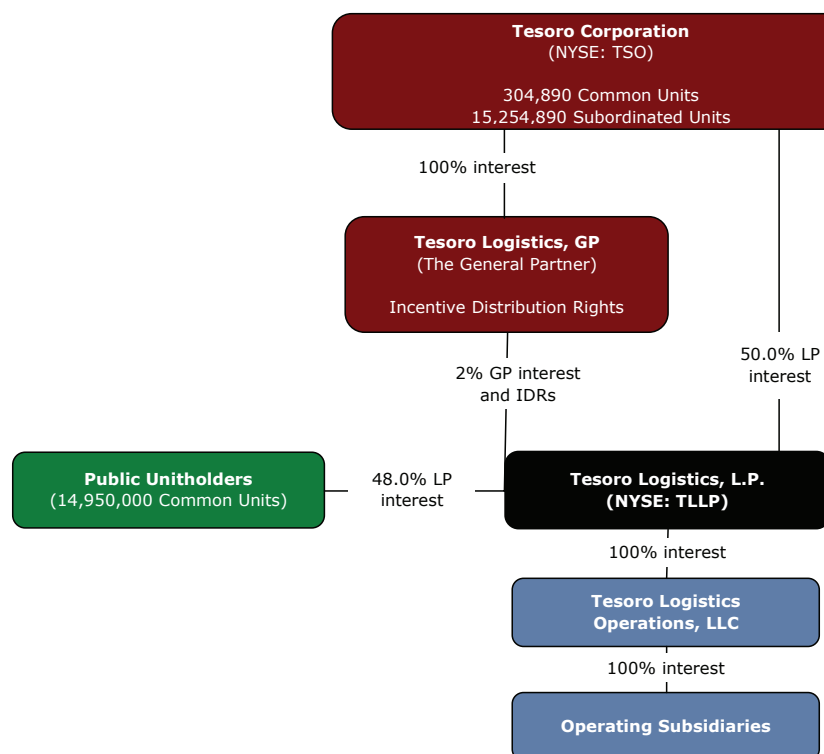
TLLP is a high-quality MLP with (1) 100% fee-based cash flow, (2) a conservative capital structure that provides the flexibility to pursue growth objectives, and (3) a strong GP that is a source for organic and drop-down acquisition opportunities, in our view. We have forecasted a five-year distribution 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 MLPs, in our view, given the following factors: (1) the fact that it offers investors an attractive way to participate in the anticipated growth in Bakken Shale infrastructure, (2) the partnership's above-average multiyear growth outlook, and (3) TLLP's low-risk business model. We believe key investment highlights and considerations include the following:

- **A play on infrastructure development in the Bakken shale.** Revenue from this emerging play is expected to account for 53% of the partnership's total revenue projected for the 12 months ending March 31, 2012 (S-1 guidance). Several larger MLPs are investing in the Bakken Shale, but the potential upside is less impactful, in our view, given the relative size and geographic diversity of these partnerships. We anticipate the expansion of TLLP's footprint in the Bakken to be a driver of organic growth for the partnership over time.
- **Visible organic growth outlook.** Excluding acquisitions, our total growth capex forecast of approximately \$133 million in 2011-16 could support a 6.0% distribution CAGR over the next five years. 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.
- **Upside could come from potential drop-down acquisitions.** Our five-year distribution CAGR forecast increases to 9.1% assuming \$100 million of acquisitions annually. TSO still has a sizeable portfolio of logistics assets, which the partnership could acquire over time to augment distribution growth and potentially more than double its size. TSO still owns and operates three additional terminals, two pipelines, and five marine terminals outside of the partnership.
- **A relatively low-risk business model and stable cash flow.** TLLP derives 100% of its revenue from fee-based contracts. In addition, the partnership's stable cash flow is underpinned by ten-year terminalling, transportation, and storage agreements, and ten-year minimum volume commitments for all of its assets.
- **Strong balance sheet.** With \$50 million of debt outstanding and \$100 million available (and a \$150 million accordion feature) on its credit facility, the partnership has the financial flexibility to pursue organic growth and acquisitions, in our view.
- **Customer and geographic concentration risks.** The partnership relies on TSO as the key customer for all of its assets (approximately 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%).

Partnership Formation, Initial Public Offering, And Structure

In December 2010, Tesoro Corporation (TSO) formed TLLP to own, operate, and invest in crude oil and refined products logistics assets. In connection with TLLP's initial public offering (IPO), TSO contributed certain crude oil and refined product logistics assets to the partnership in exchange for a 2% general partner (GP) interest, a 56.2% limited partner (LP) interest, and the incentive distribution rights (IDR). TLLP began trading on the New York Stock Exchange on April 20, 2011. Approximately 42% of the partnership was sold to the public via the issuance of 13 million units priced at \$21.00 per unit. The overallotment of 2 million units was exercised in full, which increased public unit holders' LP interest to 48.0% (15 million units) from 41.8% and reduced TSO's LP interest to 50.0% from 56.2%.

Figure 1. Partnership Structure (Adjusted For Overallotment Exercise)



Note: Adjusted for the exercise of the overallotment
Source: Partnership reports

Currently, there are 15.3 million common units and 15.3 million subordinated units outstanding. The latter class of units is all held by TSO. In total, TSO owns a limited partner (LP) interest of 50.0% and a 100% interest in the partnership's general partner Tesoro Logistics GP and the IDRs. Management estimates that at least 80% of TLLP's annualized distribution of \$1.35 per unit is tax deferred through December 31, 2013.

TLLP's limited partner interest is divided between two tranches of equity: common units and subordinated units (both 50% of total LP units). The key differences we perceive between common and subordinated units are as follows: (1) subordinated units are not entitled to receive any distributions until the common units have received the minimum quarterly distribution plus any arrearages from prior quarters during the subordination period and (2) subordinated units do not accrue arrearages. Typically, an MLP will fund short-term distribution shortfalls through its revolving credit facility, but may opt to halt distributions to subordinated unit holders if coverage is expected to fall below 1.0x for an extended period of time. Hence, subordinated units act as a cushion for common unit holders, providing additional distribution security.

TLLP's subordinated units are eligible to convert to common units on a one-to-one basis beginning on June 30, 2014, assuming the partnership has paid an annualized distribution of at least \$1.35 per unit for three years. Alternatively, subordinated units are eligible for immediate conversion assuming TLLP has paid an annualized distribution per unit in excess of \$2.025 (150.0% of the annualized minimum quarterly distribution) for a period of four consecutive quarters.

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.

Management has stated its intent to use the MLP vehicle to build Tesoro's logistics business. This could include potential joint bids for refining and logistics assets by TSO and TLLP. TLLP should benefit from gaining exposure to deal flow that would normally be unsuitable for an MLP (e.g., package sale of refining and logistics assets). By pursuing acquisitions jointly, the companies could potentially consummate a transaction and divide the assets between the two entities based on operational fit and relative risk profiles. Specifically, midstream properties would be more appropriate for TLLP, while retail or marketing-related businesses would be better suited for TSO.

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.

TSO's long-term debt is currently rated Ba1 and BB+ by Moody's and Standard and Poor's, respectively, with Stable outlooks. While TSO's debt ratings are one notch below investment grade, the company's credit metrics appear to be in line with those of other refiners and its liquidity has improved significantly since the economic recession in 2008-09. As of Q1 2011, TSO's debt-to-EBITDA ratio was 2.0x (versus the median of 2.2x for other refiners) and its net debt-to-EBITDA ratio and debt-to-capitalization ratio were 1.2x and 37%, respectively. As of March 31, 2011, the company had almost \$1.7 billion of available liquidity consisting of \$742 million of cash and \$974 million undrawn on the company's revolving credit facility.

Figure 2. Tesoro Corporation's Refinery Locations



Source: Company reports

Why Was Tesoro Logistics Partners Created?

An MLP provides TSO with a number of benefits, including the following:

- **A tax-advantaged structure with which to increase Tesoro's logistics assets.** Tesoro Logistics Partners provides a platform for TSO to build its logistics business and maximize the integrated value of its midstream and downstream assets. In addition, an expansion of Tesoro's logistics franchise should enable TSO to diversify its asset base (e.g., mitigate its exposure to refining fundamentals).
- **A premium valuation on midstream assets.** Historically, assets within an MLP structure have traded at higher valuations in the market than those same assets would within a corporate structure. For example, small-cap pipeline MLPs are currently trading at a median enterprise value (EV)-to-2012 adjusted EBITDA multiple of 10.4x, versus 4.8x for North American refining companies.
- **The opportunity to maintain control of the assets while participating in the upside potential of the incentive distribution rights.**
- **Another financing vehicle.** TLLP provides TSO with a source of lower-cost equity with which it can finance logistics-related growth. Historically, MLPs have had good access to the capital markets, which could help facilitate growth of the overall entity.

Investment Highlights

A Play On Infrastructure Development In The Bakken Shale

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:

- Expansion of the High Plains System through the construction of additional gathering lines to access new drilling locations.
- 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.
- Increase High Plains System's throughput capacity with additional pumping capacity.
- 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. (Please refer to pages 20-22 for more details.)

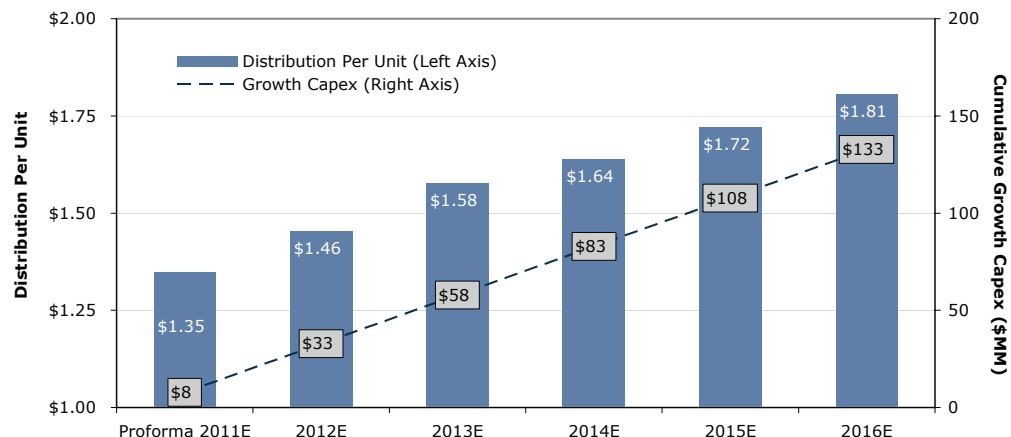
Visible Multiyear Growth Outlook

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.

Figure 3. Growth Capex Supports 6% Distribution Growth Even Absent Acquisitions



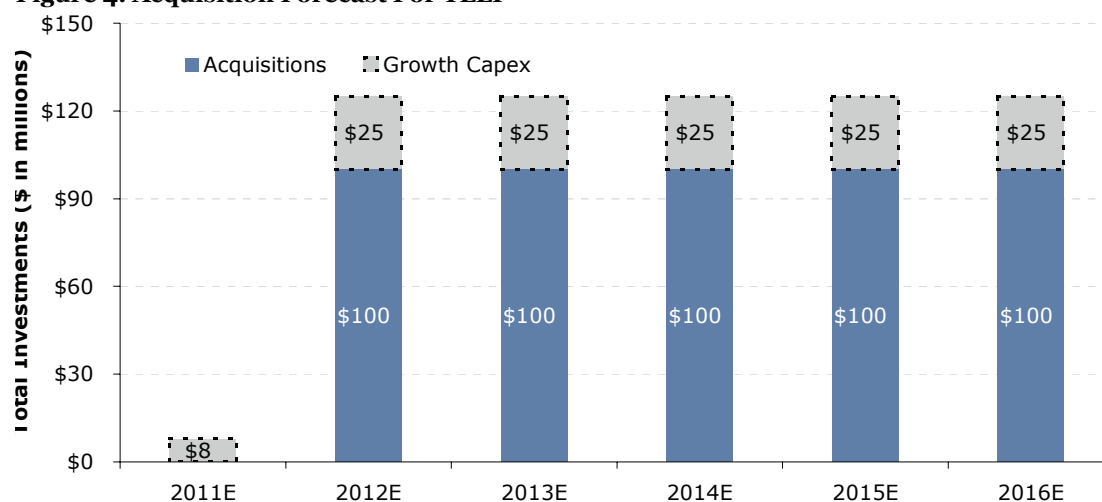
	Proforma 2011E	2012E	2013E	2014E	2015E	2016E
Growth Capex	\$7.8	\$25.0	\$25.0	\$25.0	\$25.0	\$25.0
Cumulative G. Capex Spending	\$7.8	\$32.8	\$57.8	\$82.8	\$107.8	\$132.8
EBITDA	\$52.0	\$58.1	\$64.9	\$70.0	\$75.2	\$80.5
(-) Interest expense	\$2.0	\$3.4	\$5.3	\$7.3	\$8.9	\$9.9
(-) Maintenance capex	\$4.6	\$5.1	\$5.6	\$6.0	\$6.5	\$6.9
(-) GP interest	\$0.8	\$0.9	\$1.1	\$1.4	\$2.0	\$2.9
Distributable cash flow	\$44.6	\$48.7	\$52.9	\$55.2	\$57.8	\$60.7
DCF per unit	\$1.46	\$1.60	\$1.73	\$1.81	\$1.89	\$1.99
Distribution per unit	\$1.35	\$1.46	\$1.58	\$1.64	\$1.72	\$1.81
Yr/yr growth	-	7.8%	8.4%	4.0%	5.0%	4.9%
Coverage ratio	1.08x	1.10x	1.10x	1.10x	1.10x	1.10x

Source: Wells Fargo Securities, LLC estimates

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.

The actual economics of a potential drop-down will likely be a function of the organic growth profile of the acquisition target and the maturity of TLLP as an MLP. For example, a higher acquisition multiple is likely for TSO's terminals with more volume upside due to (1) a favorable demand outlook for petroleum products in the region, (2) a less competitive market, (3) access to multiple sources (refineries), and/or (4) enhanced service capabilities available. In addition, as the partnership's earnings base grows and a higher percentage of distributions are paid to the GP, it becomes more challenging to consummate accretive acquisitions, in our view. Accordingly, TSO may elect to reduce drop-down multiples in the outer years to ensure that the transaction benefits both TLLP's GP and LP unit holders. We view TLLP's potential drop-down opportunities as a competitive advantage given that they provide a built-in growth platform and eliminate the need to compete for third-party acquisitions.

Figure 4. Acquisition Forecast For TLLP



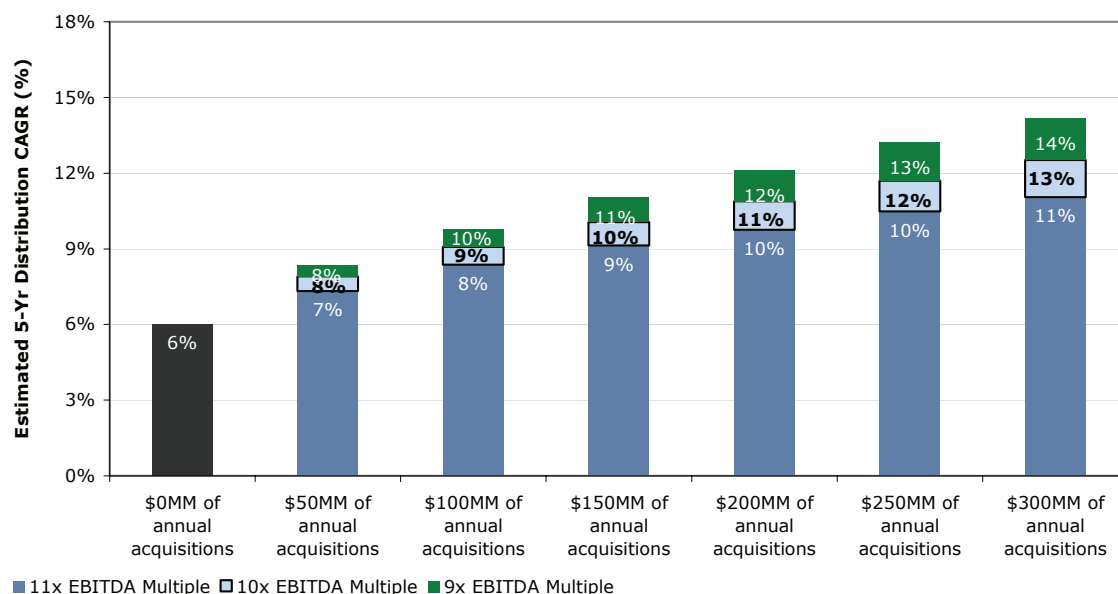
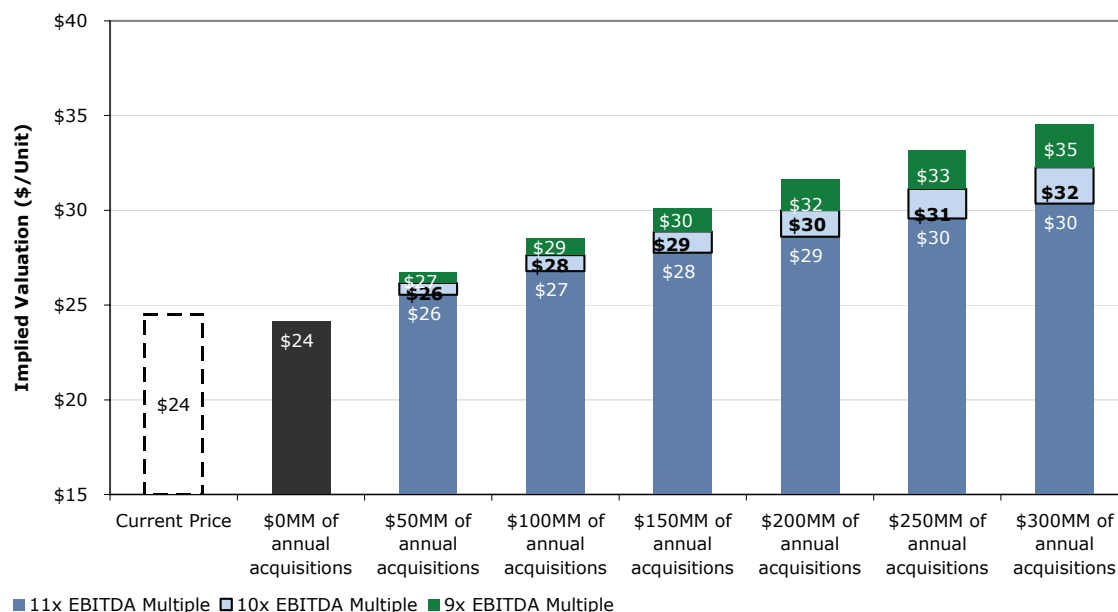
Source: Wells Fargo Securities, LLC estimates

The pool of potential drop-down assets should increase as TSO continues to invest in logistics assets. In addition, management intends to use TLLP as a vehicle to pursue third-party acquisitions. Accordingly, our distribution growth forecast could prove conservative if the size and/or timing of acquisitions consummated exceeds expectations. To note, the assumed EBITDA of \$50 million for our acquisition forecast in 2012-16 compares with estimated cash flow of \$66-68 million from TSO's current remaining portfolio of midstream assets (see pages 10-11 for details).

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 5 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 5. Five-Year Distribution CAGR And Valuation Sensitivity Based On Acquisition Assumptions



Source for both charts: FactSet and 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. Our assumptions include (1) average volume in 2009 and 2010 for TSO's pipelines and terminals and the maximum storage capacity; (2) a transportation rate of \$0.61 per bbl for TSO's Alaska Pipeline based on its published tariff, (3) a

transportation rate of \$0.25 per bbl for TSO's Los Angeles Pipeline System based on Plains All American Pipeline's (Pacific) average tariffs in the region; (4) an average terminalling fee of \$0.81 per bbl in line with TLLP's guidance for the 12 months ending March 31, 2012, (5) an average storage fee of \$0.50 per bbl per month, in line with TLLP's guidance; (6) an operating margin of approximately 60%, in line with TLLP's guidance; and (7) SG&A expenses that equal to about 7% of revenue, in line with TLLP's guidance.

Figure 6. Estimated EBITDA Of Drop-Down Portfolio

	2009-10 Avg Throughput (Bbls per day)	Assumed Rate Per Bbl	\$ in millions
Tesoro Alaska Pipeline	33,500	\$0.61	
Los Angeles Pipeline System	43,700	\$0.25	
Terminals	325,550	\$0.81	
Storage Capacity (total Bbls)	2,966,000	\$0.50	
Tesoro Alaska Pipeline			\$7.5
Los Angeles Pipeline System			\$4.0
Terminals			\$96.2
Storage Capacity			\$17.8
Total revenue			\$125.5
Operating expenses			\$48.9
G&A expense			\$8.6
EBITDA			\$68.0

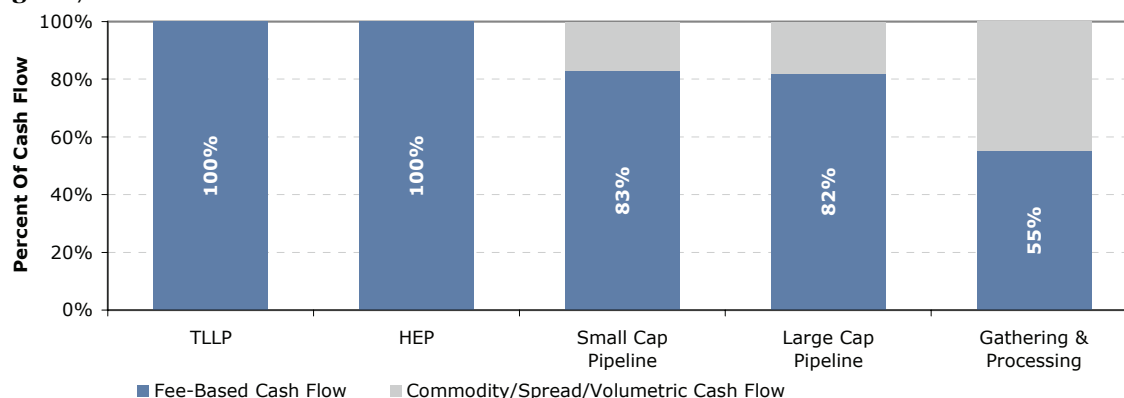
Source: Company reports and Wells Fargo Securities, LLC estimates

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. Please refer to the Appendix (pages 38-42) for descriptions of these assets. 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.

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 (see pages 12-14 for details on minimum volume commitments). 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.

Figure 7. Fee-Based Cash Flow Mix For MLPs



Source: Partnership reports and Wells Fargo Securities, LLC estimates

TLLP's 100% fee-based cash flow compares favorably with that of other small-cap pipeline MLPs. For the small-cap pipeline MLP subsector, fee-based cash flow accounts for approximately 83% of total cash flow. Notably, large-cap pipeline MLPs and gathering and processing MLPs currently obtain 82% and 55%, respectively, of their cash flow from fee-based operations.

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.

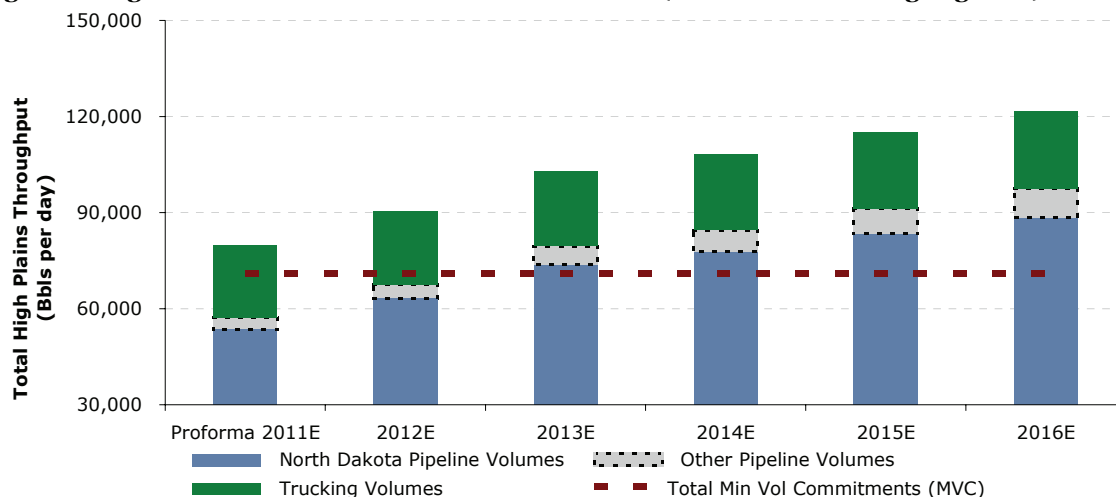
Ten-year minimum volume commitments also mitigate volatility of cash flow. Unlike for many other midstream operators, TLLP's volumetric risk is limited through a minimum volume commitment feature in all of its agreements with TSO. This feature should mitigate the sensitivity of the partnership's cash 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.

For the High Plains System, TSO has agreed to transport an average of at least 49,000 bbls per day of crude oil per month at the committed rate (i.e., \$1.11 per bbl) from North Dakota origin points to TSO's Mandan refinery for a period of ten years. If applicable, TSO agrees to pay TLLP a shortfall payment equal to the volume shortfall during a calendar month, multiplied by the weighted average committed tariff rate paid by TSO for that month. The shortfall payment is to be credited against amounts owed by TSO in excess of its minimum throughput commitment during any of the succeeding three months. Any remaining portion of the shortfall credit expires following the three-month period.

Notably, TLLP's North Dakota pipeline throughput averaged 46,004 bbls per day in 2010. According to the S-1 filing, management believes North Dakota pipeline volume will approximate 54,200 bbls per day for the 12 months ending March 31, 2012, which is above the minimum volume commitment. Based on our 2011-16 North Dakota pipeline throughput forecast, we believe that actual throughput will be above the minimum volume commitment each year. Consequently, our model does not reflect the impact of any shortfall payment adjustments.

TSO and TLLP's High Plains trucking transportation services agreement provides for a minimum volume commitment of 22,000 bbls per day per month and a transportation fee of \$2.72 per bbl for two years. TLLP's trucking volume averaged 23,305 bbls per day in 2010. Management anticipates volume to approximate 22,900 bbls per day for the 12 months ending March 31, 2012, which is above the minimum volume commitment. We anticipate actual trucking volume in 2011-16 to exceed the minimum threshold.

Figure 8. High Plains Minimum Volume Commitments (Crude Oil Gathering Segment)



Barrels Per Day	Proforma 2011E	2012E	2013E	2014E	2015E	2016E
North Dakota Pipeline Volumes	53,680	63,317	73,839	77,938	83,363	88,432
Other Pipeline Volumes	3,457	4,228	5,644	6,576	7,808	8,960
Trucking Volumes	22,830	22,983	23,312	23,528	23,815	24,082
Total High Plains Throughput	79,967	90,528	102,795	108,041	114,986	121,474
North Dakota Pipeline MVC	49,000	49,000	49,000	49,000	49,000	49,000
Trucking MVC	22,000	22,000	22,000	22,000	22,000	22,000
Total Min Vol Commitments (MVC)	71,000	71,000	71,000	71,000	71,000	71,000

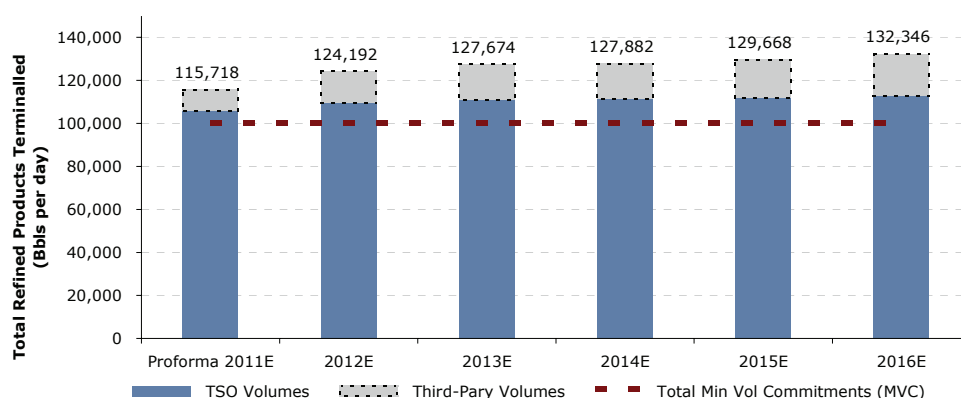
Note 1: Year-over-year projected North Dakota pipeline volume growth in 2012-16 reflects the anticipated benefit of assumed growth capex.

Source: Partnership reports and Wells Fargo Securities, LLC estimates

For TLLP's eight refined products terminals, TSO has agreed to an aggregate average throughput minimum of 100,000 bbls per day, per month at an average terminalling fee (i.e., \$0.81 per bbl) for a period of ten years. If applicable, TSO agrees to pay TLLP a shortfall payment equal to the volume shortfall during a calendar month multiplied by the weighted average throughput fee incurred by TSO for that month. The shortfall payment is to be credited against amounts owed by TSO in excess of its minimum throughput commitment during any of the succeeding three months. Any remaining portion of the shortfall credit expires following the three-month period.

TLLP's 2010 refined products terminal throughput averaged 113,950 bbls per day. According to the S-1 filing, management believes terminal volume from TSO will approximate 105,800 bbls per day for the 12 months ending March 31, 2012, which is above the minimum volume commitment. Based on our 2011-16 total refined products terminal throughput forecast, we believe that actual throughput will be above the minimum volume commitment each year. Consequently, our model does not reflect the impact of any shortfall payment adjustments.

Figure 9. Terminalling Minimum Volume Commitments



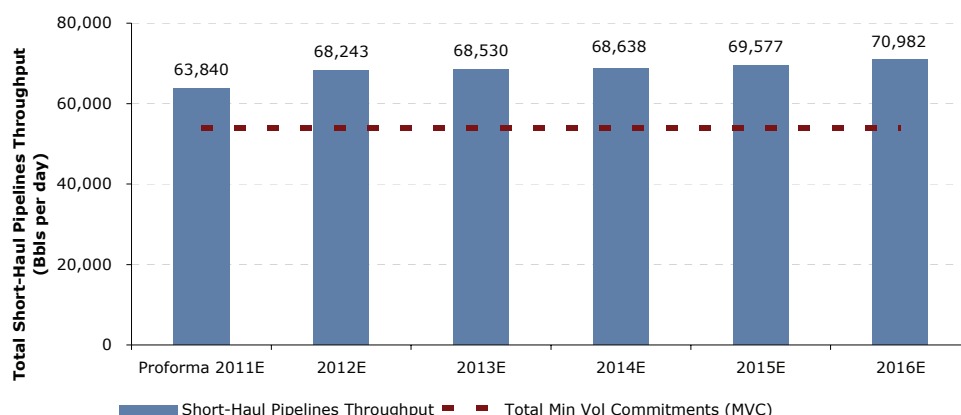
Barrels Per Day	Proforma 2011E	2012E	2013E	2014E	2015E	2016E
TSO Volumes	105,732	109,651	111,040	111,123	111,836	112,904
Third-Party Volumes	9,987	14,541	16,634	16,759	17,832	19,442
Total Refined Products Terminalled	115,718	124,192	127,674	127,882	129,668	132,346
Total Min Vol Commitments (MVC)	100,000	100,000	100,000	100,000	100,000	100,000

Source: Partnership reports and Wells Fargo Securities, LLC estimates

For TLLP's Salt Lake City assets, TSO has agreed to transport an average of at least 54,000 bbls per day, per month of crude oil and refined products on TLLP's five short-haul pipelines at the transportation rate of \$0.25 per bbl for a ten-year period. If applicable, a volume shortfall payment or credit adjustment would also occur. In addition, TSO is committed to pay TLLP a \$0.50 per bbl per month fee based on the partnership's Salt Lake City storage facility's shell capacity of 878,000 bbls in exchange for storage and transportation services provided between TLLP's storage facility and TSO's Salt Lake City refinery.

Notably, TLLP's 2010 Salt Lake City short-haul pipeline throughput averaged 60,666 bbls per day in 2010. According to the S-1 filing, management believes pipeline volume will approximate 65,800 bbls per day for the 12 months ending March 31, 2012, which is above the minimum volume commitment. Based on our 2011-16 Salt Lake City pipeline throughput forecast, we believe that actual throughput will be above the minimum volume commitment each year. Consequently, our model does not reflect the impact of any shortfall payment adjustments.

Figure 10. Salt Lake City Pipelines Minimum Volume Commitments



Barrels Per Day	Proforma 2011E	2012E	2013E	2014E	2015E	2016E
Short-Haul Pipelines Throughput	63,840	68,243	68,530	68,638	69,577	70,982
Total Min Vol Commitments (MVC)	54,000	54,000	54,000	54,000	54,000	54,000

Source: Partnership reports and Wells Fargo Securities, LLC estimates

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.

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 expenditure 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.

Figure 11. Overview Of 2011 Sources And Uses Of Cash

(\$ in millions)		Q1'11A	Q2'11E	Q3'11E	Q4'11E	2011E
Uses Of Cash	Growth Spending:					
	Acquisition spending	-	-	-	-	-
	Growth capex spending	-	\$3	\$3	\$3	\$8
	Debt Maturities:					
	Long-term debt maturities	-	-	-	-	-
	Total spending	\$0	\$3	\$3	\$3	\$8
Sources Of Cash	Equity Funding:					
	Secondary equity issuance	-	-	-	-	-
	Excess cash flow	\$2	\$0	\$1	\$1	\$4
	Cash on hand and other	-	-	-	-	-
	Debt Funding:					
	Long-term debt issuance	-	-	-	-	-
	Credit facility	(\$2)	\$2	\$2	\$2	\$4
	Total financing	\$0	\$3	\$3	\$3	\$8
	Credit Metrics:					
	Amount drawn on credit facility	\$50	\$52	\$54	\$56	\$56
	Letters of credit outstanding	\$0	\$0	\$0	\$0	\$0
	Utilization	33%	35%	36%	37%	37%
	Liquidity	\$100	\$98	\$96	\$94	\$94
	Debt-to-EBITDA ratio				1.1x	1.1x

Source: Wells Fargo Securities, LLC estimates

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, which we anticipate the partnership would term out in Q2. 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. Like most other MLPs, TLLP's general partner has IDRs, which entitle it to receive an increasing percentage of the partnership's distributions as the distribution per unit surpasses certain tiers (see Figure 12). TLLP would have to increase its minimum quarter distribution (MQD) by 50% to reach the "high splits," or 50/50 tier.

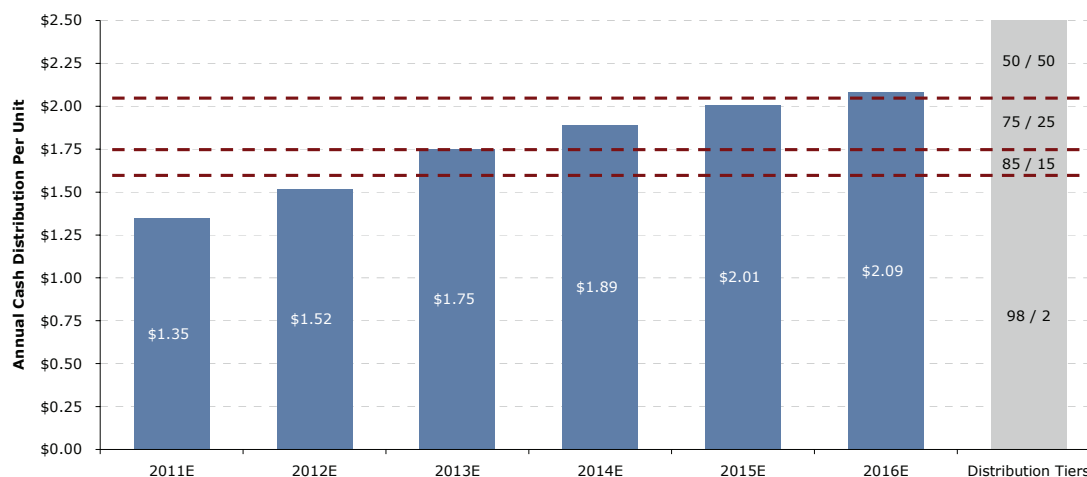
Figure 12. TLLP's Incentive Distribution Tiers

Quarterly distribution per unit					Marginal % Interest In Cash Distributions	
					Unitholders	GP & IDRs
Minimum quarterly distribution (MQD)					\$0.3375	
First target distribution					up to \$0.3881	
Second target distribution					above \$0.3881 up to \$0.4219	
Third target distribution					above \$0.4219 up to \$0.5063	
Thereafter					above \$0.5063	
					98%	2%
					98%	2%
					85%	15%
					75%	25%
					50%	50%

Source: Partnership reports

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 to distributable cash flow 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.

Figure 13. TLLP Incentive Distribution Tiers And Our Distribution Forecast



Source: Partnership reports and Wells Fargo Securities, LLC estimates

Specifically, the GP would receive a lower percentage of incremental cash flow at the reset (higher) MQD than the 50% of incremental cash flow that it would receive under the initial distribution schedule. Hence, by resetting the incentive distribution tiers, the MLP’s cost of equity is effectively reduced. On the basis of our distribution growth forecast, the partnership would reach the high-splits tier in Q4 2015. From this point forward, the GP would begin receiving 50% of the partnership’s incremental cash flow.

TSO holds the right to reset the MQD and incentive distribution levels (without the approval of the common unit holders) under the following conditions:

- If there are no subordinated units outstanding, and
- If the general partner has received incentive distributions at the highest level, or 48%, for each of the prior four consecutive fiscal quarters.

The GP would receive a certain number of TLLP’s common units and additional general partner units in exchange for “resetting” the incentive distribution levels. The number of common units received would be based on the amount of incentive cash distributions received for the two consecutive fiscal quarters prior to reset.

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.

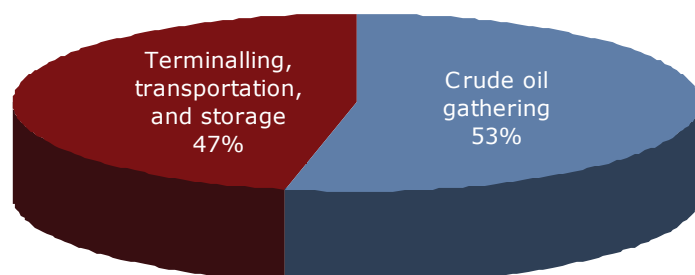
Figure 14. Overview Of TLLP Assets

(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).

Figure 15. TLLP Projected Revenue ⁽¹⁾



Note 1: Data for the trailing 12 months ending March 31, 2012.

Source: Partnership reports

TLLP's Assets In The Bakken Shale

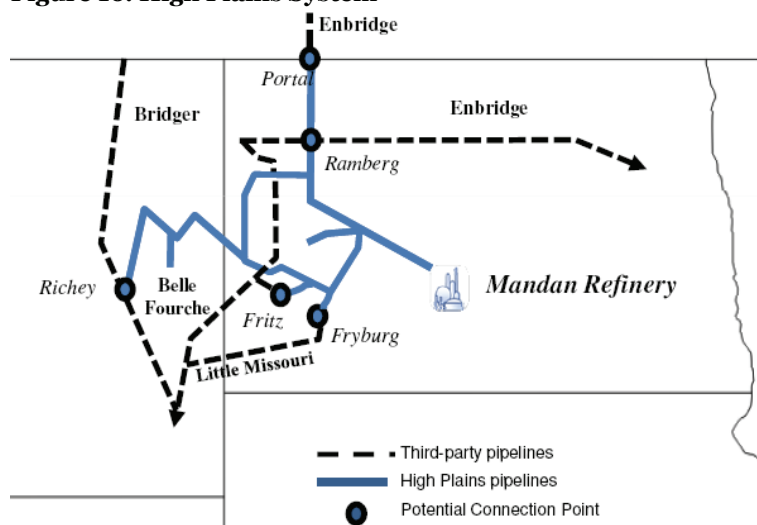
Pipeline operations. Currently, TLLP operates approximately 700 miles of gathering and trunk lines tied to the Bakken Shale/Williston Basin in North Dakota and Montana. The system also has access to Canadian crude oil through connections with third-party pipelines. The partnership gathers crude oil (up 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:

- Approximately 143 miles of up to 6-inch injection lines in western North Dakota and eastern Montana,
- 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
- 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 16, 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.

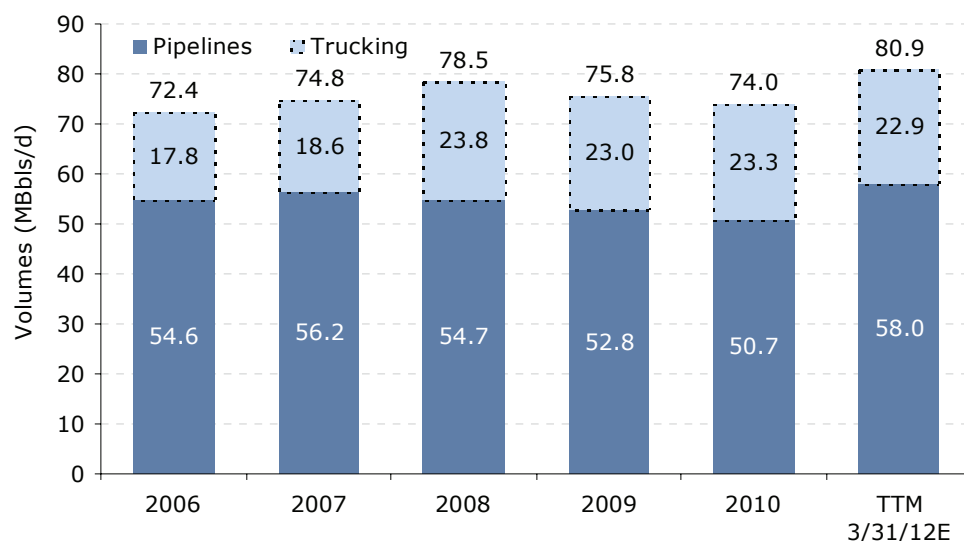
Figure 16. High Plains System



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.

Figure 17. TLLP Crude Oil Gathering Throughput ⁽¹⁾



Note: Management's guidance for the 12 months ending March 31, 2012

Source: Partnership reports

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Overview of TSO's Mandan Refinery. The Mandan Refinery began operations in 1954 and is located on the Missouri River near Mandan, North Dakota on approximately 950 acres. It primarily receives sweet (low sulfur) domestic crude oil from the Bakken Shale/Williston Basin, which is transported via TLLP's High Plains System. On March 21, 2011, TSO announced a \$38 million project to expand the capacity at its Mandan refinery to 68,000 bbls per day by Q2 2012 from 58,000 bbls per day. Management has indicated that a larger expansion of the refinery would require significant capital requirements for major upgrades and is therefore unlikely in the near term.

Over the past three years (i.e., 2008-10), the Mandan refinery's average total throughput was 52,000 bbls per day (utilization of approximately 90%). In 2010, the Mandan refinery processed approximately 50,800 bbls per day of crude oil and other feedstock. The refinery's yields include gasoline and gasoline blendstocks (e.g., approximately 60% of total volume), diesel fuel, and jet fuel, as well as heavy fuel oils and liquefied petroleum gas (LPG). Turnarounds at the Mandan refinery usually occur every six years and typically last one month. Mandan's last turnaround was completed in May 2010. To note, refineries perform turnarounds periodically to perform maintenance and overhaul operations. Turnarounds are also used to inspect and repair equipment.

The primary markets for refined products produced at TSO's Mandan refinery include Minneapolis and St. Paul, Minnesota. A majority of Mandan's refined products are transported east via NuStar's North Refined Products Pipelines System, which originates at the Mandan refinery and terminates in Minneapolis. As shown in Figure 18, NuStar's pipeline has multiple terminals in North Dakota and Minnesota. Only 19% of Mandan's refined products produced are distributed through TLLP's Mandan Terminal.

Figure 18. Map Of NuStar's Refined Product Pipeline From TSO's Mandan Refinery

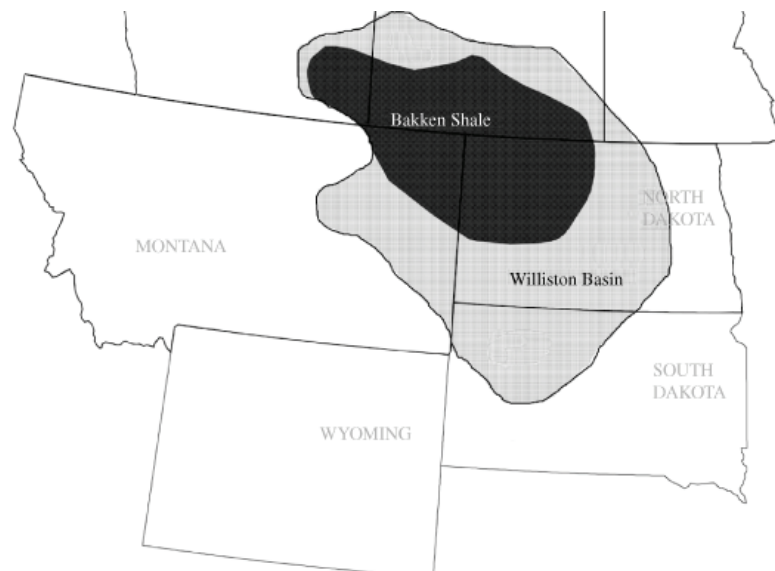


Source: NuStar Energy, L.P. reports

Overview of the Bakken Shale. The Bakken and Three Forks are formations in the Williston Basin, which spans parts of Montana, North Dakota, South Dakota, southern Saskatchewan, and Manitoba, Canada. The Williston Basin's crude oil production in December 2010 averaged 408,125 bbls per day (or 10.6% of total domestic onshore production), according to the North Dakota Pipeline Authority (NDPA). As a reminder, TLLP's High Plains System can deliver up to 70,000 bbls per day to TSO's Mandan refinery. Development of the Bakken/Three Forks is primarily concentrated in the states of North Dakota and Montana.

The Bakken Shale is one of the most prolific unconventional oil plays in the United States. Favorable crude oil prices and advancements in horizontal drilling, fracturing, and completion technologies are prompting a reevaluation of earlier assessments of the play's technically recoverable reserve potential. For example, the United States Geological Survey (USGS) performed a study on the Bakken Shale in 1995 and estimated that only 151 million barrels of crude oil (the midpoint of the range) were technically recoverable. In 2008, the USGS updated its assessment of the Bakken Shale and increased its technically recoverable reserve estimate to 3.65 billion barrels (the midpoint of the range), which represents a nearly 25-fold increase from its previous forecast. Estimates of the play's recoverable reserves have been trending upward. The North Dakota Department of Mineral Resources provided a recoverable reserve estimate of 4.0-6.3 billion barrels for North Dakota's Bakken and Three Forks formations based on studies conducted in 2008 and 2010. Continental Resources, Inc.'s (the largest producer in the Bakken Shale, with 865,000 net acres as of February 2011) forecast is even higher (i.e., recoverable reserves of approximately 24 billion bbls based on today's drilling technologies). Notably, these figures compare to total U.S. estimated proven reserves of 19.1 billion barrels.

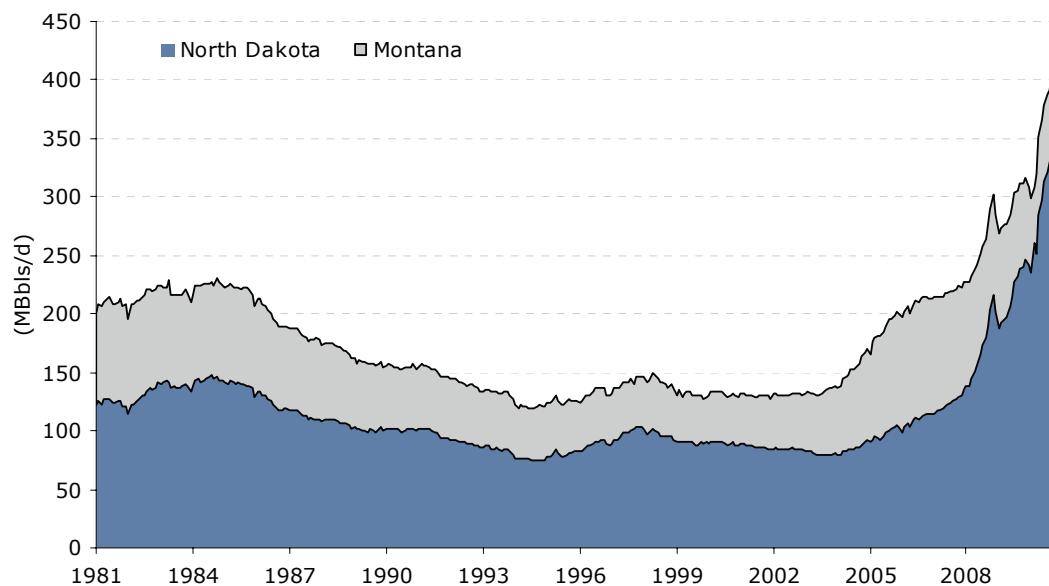
Figure 19. Map Of Bakken Shale



Source: Partnership reports

Since 2005, North Dakota crude oil production has increased at a five-year CAGR of 26%, to 306.6 Mbbls per day in 2010 from an average of 97.7 Mbbls per day, according to the U.S. Energy Information Administration (EIA). In December 2010 (latest EIA data), the state's crude oil production averaged 343.9 Mbbls per day, up 42% year over year from 242.1 Mbbls per day. North Dakota is now the fourth-largest crude oil producing state in the United States, up from being the ninth largest four years ago. Montana's average crude oil production in December 2010 of 67 Mbbls per day was essentially flat with year ago volume. The state's crude oil production, which includes volume from other resource plays, averaged 65 Mbbls per day in 2010, versus 90 Mbbls per day in 2005.

Figure 20. North Dakota And Montana Crude Oil Production

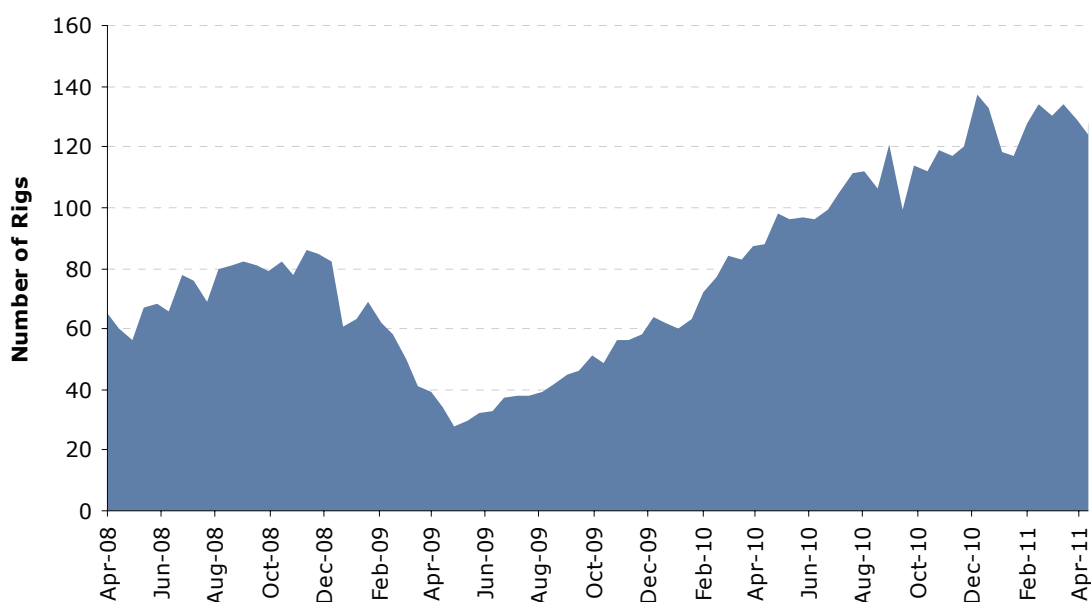


Source: U.S. Energy Information Administration

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Due to favorable drilling economics, the Bakken Shale is one of the most actively drilled unconventional shale plays in the United States. According to the Land Rig Newsletter, the rig count tied to the Bakken Shale (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. Continental Resources estimates that approximately 3,600 horizontal wells have been completed in the Bakken Shale as of February 2011 and expects that the current rig count could add 2,000 horizontal wells annually. The company plans to spend \$1.1 billion of growth capital in the Bakken Shale in 2011. As of May 12, 2011, the producers with the most rigs operating in the play included Continental Resources (i.e., 16 rigs), Hess Corp. (i.e., 16 rigs), Whiting Petroleum Corp. (i.e., 12 rigs), and Petro-Hunt (i.e., 6 rigs), according to the Land Rig Newsletter.

Figure 21. Rig Count In The Bakken Shale (North Dakota)



Source: Land Rig Newsletter and Wells Fargo Securities, LLC

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. Continental Resources has a more robust outlook and projects that Bakken Shale production could reach 1 million bbls per day by 2015. Takeaway capacity out of the Williston Basin projected for 2011 (i.e., 653,000 bbls per day, including 418,000 bbls per day by pipelines and 235,000 bbls per day by rail) exceeds current production of 408,125 bbls per day. However, it appears that infrastructure bottlenecks could arise by 2015 if crude oil production increases to a level above the projected total takeaway capacity in the region (i.e., 1,070,000 bbls per day, including all potential pipeline and rail expansions).

Figure 22. Williston Basin Takeaway Capacity

(Barrels per day) Company	Type of Transport	Takeaway Capacity				
		2007A	2008A	2009A	2010A	2011E
Tesoro Corp.	Pipeline	58,000	58,000	58,000	58,000	58,000
Butte Pipeline (True Co.)	Pipeline	92,000	104,000	118,000	118,000	118,000
Enbridge North Dakota	Pipeline	80,000	110,000	110,000	161,500	161,500
Various Rail Sites	Rail	-	30,000	30,000	30,000	30,000
EOG Rail	Rail	-	-	65,000	65,000	65,000
Dakota Transport Solutions	Rail	-	-	-	20,000	40,000
Enbridge Bakken Exp. - Phase I	Pipeline	-	-	-	-	25,000
EDOG Logistics, LLC	Rail	-	-	-	-	100,000
Enbridge Sweet Only	Pipeline	-	-	-	-	23,500
Butte Pipeline Expansion	Pipeline	-	-	-	-	32,000
Total Takeaway Capacity		230,000	302,000	381,000	452,500	653,000
Williston Basin Oil Production		215,659	253,900	291,302	375,169	408,125
Excess Transportation Capacity		14,341	48,100	89,698	77,331	244,875

Note: 2011E Williston Basin production is the average volumes in December 2010 (latest data available)

Source: North Dakota Pipeline Authority, Company data, and Wells Fargo Securities, LLC estimates

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 23. Map Of TLLP's Refined Product Terminals

Source: Partnership reports

In 2010, the two terminals with the highest throughput were Los Angeles (i.e., 35,286 bbls per day) and Salt Lake City (i.e., 25,457 bbls per day), which in total represented approximately 53% of TLLP's total terminalling throughput. Notably, the aforementioned terminals receive refined products directly from TSO's Los Angeles (refining capacity of 97,000 bbls per day) and Salt Lake City (refining capacity of 58,000 bbls per day) refineries, respectively. TLLP's Anchorage terminal is the largest based on terminalling capacity (63,000 bbls per day or 26% of total), but its volume accounted for only 13% of TLLP's total in 2010 (utilization of 24%).

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Figure 24. Overview Of TLLP's Refined Product Terminals

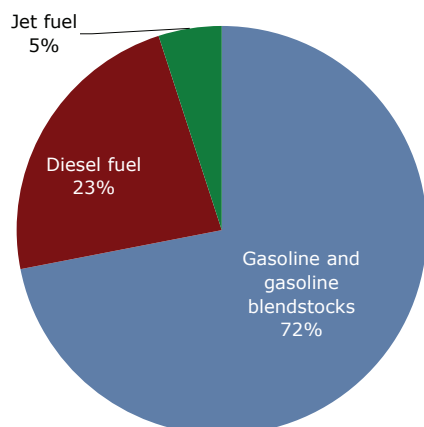
(In barrels/day)								
Terminal	Maximum Terminalling Capacity	2010 Avg. Throughput	Storage Capacity (Bbls)	Products Handled			Supply Source	Mode of Delivery
				Gasoline	Diesel	Jet Fuel		
Los Angeles, CA	48,000	35,286	6,000	✓	✓		TSO Los Angeles Refinery	Truck
Stockton, CA	9,400	8,526	66,000	✓	✓		TSO 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

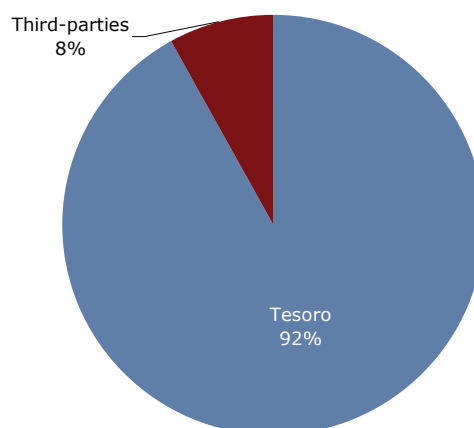
TLLP's terminals handle gasoline and gasoline blendstocks, 72% of 2010 volume, diesel fuel, 23%, and jet fuel, 5%. As shown in Figure 25, TSO accounted for nearly all (i.e., 92%) of TLLP's terminal volume in 2010. TLLP expects this figure to decrease over time as a result of its efforts to secure additional third-party volume.

Figure 25. TLLP's 2010 Refined Product Throughput

Terminal Throughput By Product

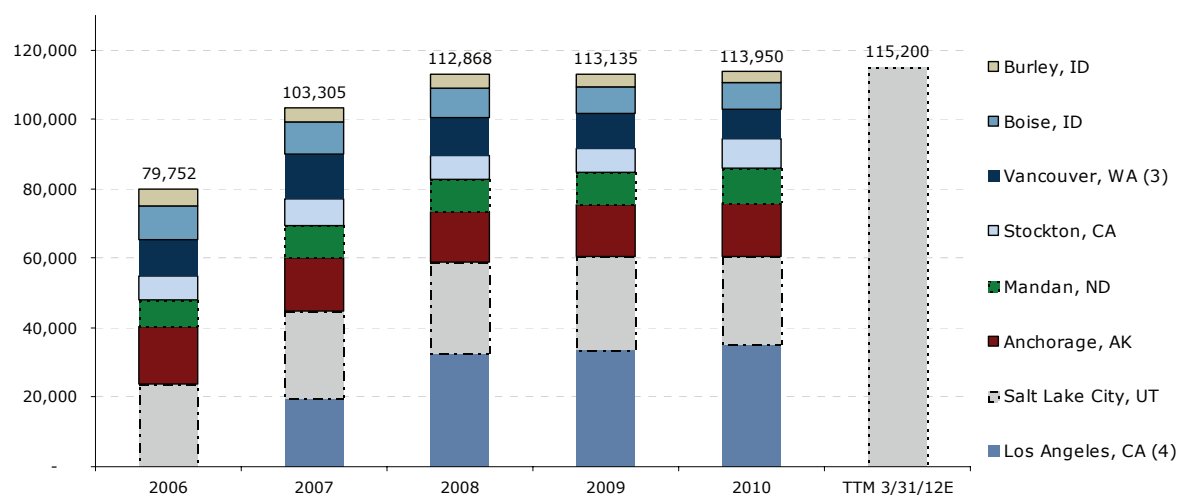


Terminal Throughput By Customer



Source: Partnership reports

In 2010, TLLP's terminals total throughput averaged 113,950 bbls per day, versus an average of 113,135 bbls per day in 2009, and the three-year average of 113,318 bbls per day. Management estimates an average throughput of 115,200 bbls per day for the 12 months ending March 31, 2012.

Figure 26. TLLP's Average Terminalling Throughput ⁽¹⁾ ⁽²⁾

Note 1: Does not include TLLP's Salt Lake City storage facility or interconnecting pipelines

Note 2: Includes management's guidance for the 12 months ending March 31, 2012

Note 3: 2010 results are lower than 2009 due to a fire at TSO's Anacortes refinery

Note 4: TSO purchased the Los Angeles refinery from BP in 2007

Source: Partnership reports

Los Angeles, California terminal (terminalling capacity of 48,000 bbls per day). The Los Angeles Terminal was purchased by TSO in May 2007 from Shell in connection with the acquisition of the Los Angeles refinery. The terminal receives gasoline and diesel from TSO's Los Angeles refinery via pipelines. Refined products are transported via trucks and sold to the Los Angeles market. While there is no refined product storage at this facility, the Los Angeles terminal does have 6,000 bbls of ethanol storage capacity and provides blending services.

Stockton, California terminal (9,400 bbls per day). TLLP's Stockton terminal is located northwest of San Francisco, California. The terminal receives gasoline and diesel from TSO's Golden Eagle refinery in Martinez, California via Kinder Morgan's SFPP Northern California pipeline. Through TLLP's two-bay truck loading rack, TSO distributes and sells refined products locally. The terminal has 20,000 bbls and 46,000 bbls of diesel and gasoline storage capacity, respectively. TLLP leases the Stockton terminal from the Port of Stockton under a five-year lease, which expires in 2014 and may be renewed for three additional five-year terms.

Salt Lake City terminal (42,000 bbls per day). In 2001, TSO purchased the Salt Lake City terminal in connection with the acquisition of the Salt Lake City refinery from BP. The terminal receives gasoline, diesel, and jet fuel through proprietary pipelines from TSO's Salt Lake City refinery. The facility has two gasoline storage tanks with total capacity of 17,900 bbls. Refined products are distributed locally and regionally by TSO and other third parties through the terminal's five-bay truck rack. Approximately 50% of products produced at TSO's Salt Lake Refinery are distributed through TLLP's terminal.

Anchorage, Alaska terminal (63,000 bbls per day). The facility is located at the Port of Anchorage. The Alaska terminal receives gasoline, diesel, and jet fuel from TSO's Kenai refinery via the Tesoro Alaska Pipeline (TAPL) and from marine vessels. The terminal has a rail rack, which has the capability to unload ten railcars and provides access to the Anchorage Fueling and Service Corporation (AFSC) jet fuel storage facility. The facility also has 883,000 bbls of storage capacity (251,500 bbls for gasoline, 99,000 bbls for diesel, 400,200 bbls for jet fuel, 118,300 bbls for AvGas, and 13,800 bbls for transmix). Refined products are distributed and sold locally by TSO and third parties through (1) TLLP's two truck racks, (2) third-party barges at the Port of Anchorage dock, and (3) TSO's pipeline connected to AFSC's jet fuel storage facility. Approximately 28% of TSO's Kenai refinery's refined products are distributed by TLLP's Anchorage terminal.

Mandan, North Dakota terminal (22,500 bbls per day). The Mandan terminal is located at TSO's 950-acre Mandan refinery and consists of a truck loading rack. TSO acquired the Mandan refinery and associated terminal from BP in 2001. The Mandan terminal handles only 19% of the refinery's total yield. The remaining product is distributed through NuStar's North Refined Products Pipeline System. The Mandan terminal does not have refined product storage.

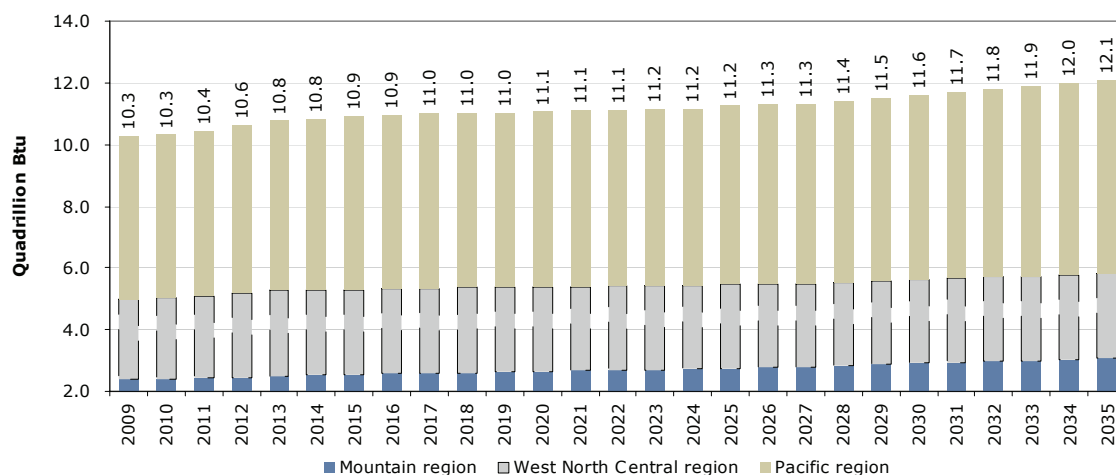
Vancouver, Washington terminal (19,600 bbls per day). The facility receives gasoline and distillates from TSO's Anacortes refinery primarily through the Olympic Pipeline, which is operated by BP. The Olympic Pipeline is connected to four refineries in Puget Sound and transports gasoline, diesel, and jet fuel to terminals in Seattle, Tacoma, Olympia, Vancouver, and Portland. The Vancouver terminal can also accept barge shipments from the Anacortes refinery and third parties. The facility has 298,000 bbls of storage capacity (160,000 bbls for diesel, 130,000 bbls for gasoline, and 7,400 bbls for ethanol). TSO leases the Vancouver terminal from the Port of Vancouver. The lease expires in 2016 and may be renewed for two additional ten-year periods.

Boise and Burley, Idaho terminals (34,500 bbls per day). TLLP owns two terminals in Boise and Burley, Idaho, which were purchased by TSO in connection with its Salt Lake City refinery acquisition from BP in 2001. The Boise terminal receives gasoline, diesel, and jet fuel from TSO's Salt Lake City refinery via Chevron's Northwest Pipeline, while the Burley terminal receives only gasoline and diesel. The Boise terminal also receives ethanol by truck. The Boise terminal includes eight storage tanks capable of holding 144,000 bbls of gasoline, 34,300 bbls of jet fuel, 54,000 bbls of diesel, 21,000 bbls of ethanol, and 1,000 bbls of transmix capacity. The Burley terminal also has five storage racks with 65,900 bbls and 81,000 bbls of diesel and gasoline storage capacity, respectively. Refined products are distributed from the terminals via trucks and sold locally by TSO. Approximately 41% of total refined product volume from TSO's Salt Lake City refinery are handled by TLLP's Boise and Burley terminals.

Demand Growth In Tesoro's Operating Footprint Is Expected To Outpace The U.S. Average

According to the EIA's Annual Energy Outlook (2011), U.S. demand for liquid products, i.e., liquefied petroleum gases (LPG), motor gasoline, jet fuel, kerosene, fuel oils, petrochemical feed stocks, and other, is expected to grow at an average annual rate of 0.5% through 2035 (i.e., based on 2009-2035). Notably, in two of the three U.S. regions served by TSO's refineries (terminals), the growth in regional demand is anticipated to exceed the average rate for the United States. The EIA estimates liquids products consumption in the Pacific and Mountain regions to grow at average annual rates of 0.7% and 1.0%, respectively, to 6.26 quadrillion British thermal units (Btu) and 3.07 quadrillion Btu by 2035 (from 5.28 quadrillion Btu and 2.38 quadrillion Btu, respectively, in 2009). Demand in the other U.S. region (i.e., the West North Central region, served by the company's Salt Lake City assets and terminals in Boise and Burley, Idaho) is expected to grow by 0.2%, to 2.76 quadrillion Btu from 2.63 quadrillion Btu. In aggregate, demand in the domestic regions served by TSO's refineries is estimated to grow at an average annual rate of 0.6%.

Figure 27. U.S. Pacific, Mountain, And West North Central Refined Product Consumption



Note 1: Mountain region includes Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming

Note 2: Pacific region includes Alaska, California, Hawaii, Oregon, and Washington

Note 3: West North Central region includes Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota

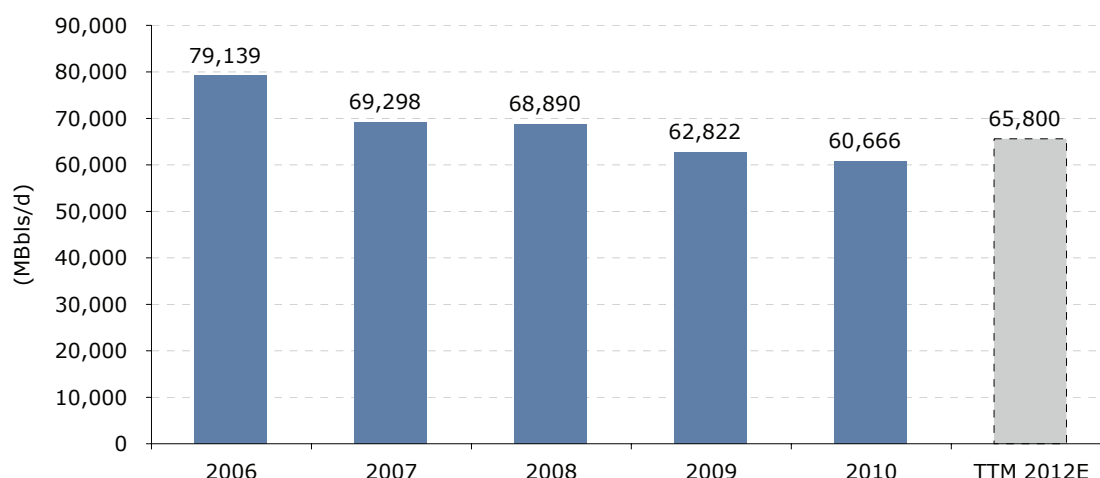
Source: EIA Annual Energy Outlook – 2011

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:

- **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 through 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.
- **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.
- **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.

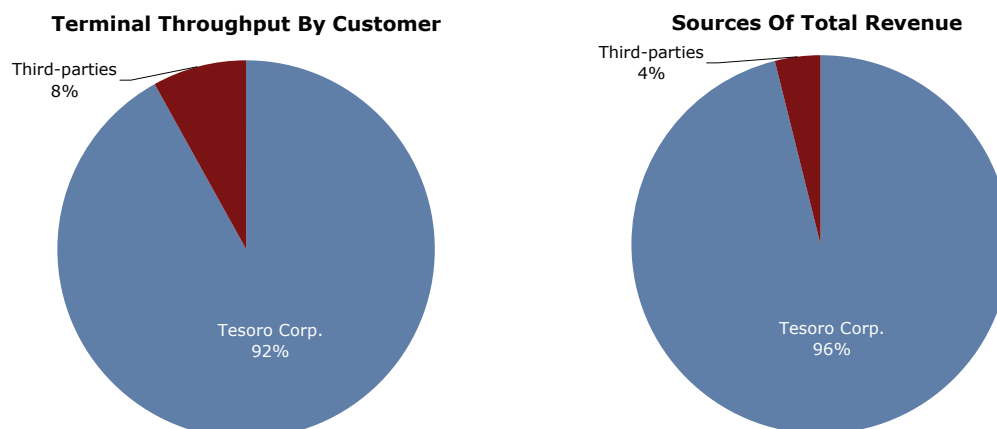
Figure 28. TLLP's Average Short-Haul Pipeline Throughput ⁽¹⁾



Note 1: Includes management's guidance for the 12 months ending March 31, 2012
Source: Partnership reports

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.

Figure 29. TLLP's 2010 Customer Base

Source: Partnership reports

- **Slower-than-forecast 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.

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.

Figure 30. Sensitivity Of DDM Model To Valuation Assumptions

Required Rate Of Return	Long-Term Growth Rate Scenarios		
	0.75%	1.25%	1.75%
7.0%	\$35	\$35	\$37
7.5%	\$31	\$32	\$34
8.0%	\$29	\$30	\$31
8.5%	\$27	\$28	\$29
9.0%	\$25	\$26	\$27
9.5%	\$23	\$24	\$25
10.0%	\$22	\$23	\$23

Source: Wells Fargo Securities, LLC estimates

Master Limited Partnerships

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 31. TLLP Versus Small-Cap Pipeline MLP Peer Group

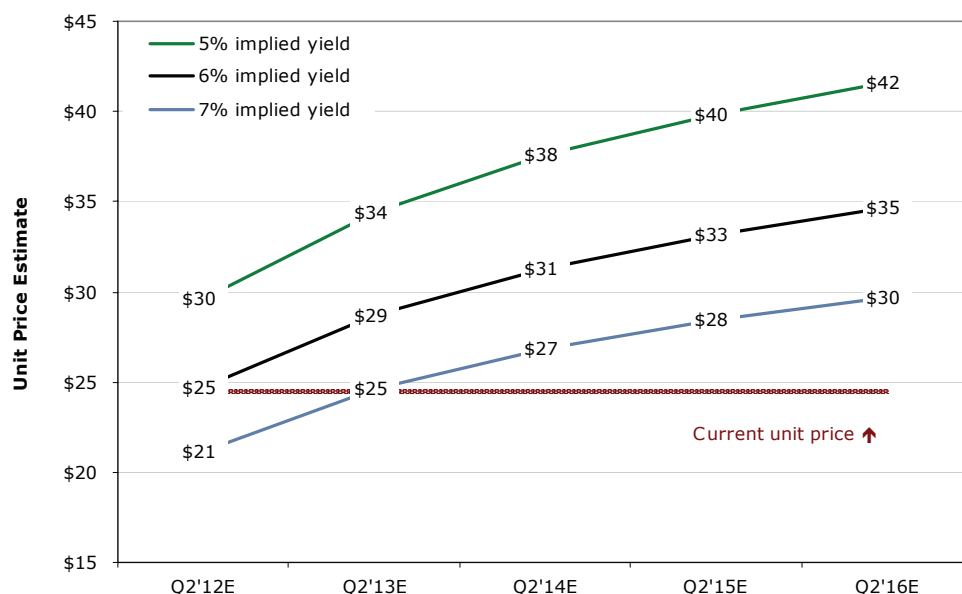
	Ticker	Price		EV / Adj. EBITDA		Price/DCF		Distr. growth ests.			P/DCF-to-growth
		5/27/11	Yield	2011E	2012E	2011E	2012E	1-year	3-year	5-year	
Genesis Energy L.P.	GEL	\$27.00	6.0%	14.4x	13.4x	13.7x	12.7x	10.5%	9.6%	8.8%	1.3x
Holly Energy Partners L.P.	HEP	\$55.00	6.2%	14.4x	14.2x	15.1x	13.3x	5.3%	6.4%	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

EV-to-EBITDA definition. When comparing TLLP’s value on a basis of its EV-to-EBITDA multiple, we use an adjusted EBITDA. EBITDA generated by the partnership is used to support the cash distributions to both the limited and general partners. However, enterprise value reflects only the interest of the limited partners. Therefore, in order to produce an “apples-to-apples” comparison, we deduct the cash flow accruing to the general partners from EBITDA. For example, if a partnership is generating EBITDA of \$100 million and \$10 million is accruing to the general partner, we deduct \$10 million from EBITDA in calculating our EV-to-EBITDA multiple. We believe this is the most appropriate way to adjust EBITDA when comparing it to enterprise value.

Projected Yield As A Check

While we rely on a dividend discount model and cash flow multiples as our primary valuation tools, we also look at yield as a “gut check” to our other valuation estimates. In general, we tend to examine our distribution forecast several years out and evaluate whether, based on our valuation range, the projected yield could be reasonable.

Figure 32. TLLP Implied Price Based On Our Distribution Estimates And Varying Yields

Source: FactSet and Wells Fargo Securities, LLC estimates

Looking out one year and assuming that TLLP's yield was in a range of 5-7%, TLLP units could be worth \$21-30 per unit, with 14% downside risk to 21% upside potential from the current market price. The potential flaw in this analysis is that our distribution estimates could be inaccurate (both to the upside potential and the downside risk), as the timing and magnitude of potential acquisitions is unknown.

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

TLLP provided Q1 2012 trailing-12-months (TTM) guidance in its prospectus. The company forecasts EBITDA of \$52.9 million, which is in line with our forecast of \$52.7 million (excluding assumed acquisitions). Figure 33 compares our Q1 2012 TTM estimates to TLLP's guidance.

Figure 33. TLLP Q1 2012 TTM Guidance Versus Our Estimates (Excluding Acquisitions)

\$ in millions, except throughput data	Q1 2012 (TTM)		Variance	
	Guidance	Our Est.	(\$MM)	(%)
Crude oil gathering	51.8	51.8	(0.0)	0.0%
Terminalling, transportation, and storage	45.5	45.2	(0.3)	-0.6%
Other revenues	0.0	0.0	0.0	-
Total Revenues:	97.3	97.0	(0.3)	-0.3%
Costs And Expenses:				
Operating and maintenance expenses	37.7	37.7	(0.1)	-0.2%
Depreciation expense	9.2	9.2	0.1	0.7%
General and administrative	6.7	6.7	0.0	0.2%
Other expenses	0.0	0.0	0.0	-
Total operating expenses	53.6	53.6	(0.0)	0.0%
Operating Profit	43.7	43.4	(0.3)	-0.6%
Other Income (Expense)				
Interest expense	2.4	2.7	0.3	10.5%
Other income	0.0	0.0	0.0	-
Net Income	41.3	40.8	(0.5)	-1.3%
EBITDA	52.9	52.7	(0.2)	-0.4%
Maintenance capital expenditure	4.6	4.6	(0.0)	-0.7%
Crude Oil Gathering				
Total pipeline throughput (Bbls/d)	58,000	58,009	9	0.0%
Trucking volume (Bbls/d)	22,900	22,899	(1)	0.0%
High Plains System throughput (Bbls/d)	80,900	80,908	8	0.0%
Terminalling, Transportation and Storage				
Refined products terminalled (Bbls/d)	115,200	115,212	12	0.0%
Short-haul pipelines throughput (Bbls/d)	65,800	65,800	(0)	0.0%
Storage capacity reserved (Bbls)	878,000	878,000	0	0.0%

Source: Partnership reports and Wells Fargo Securities, LLC estimates

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 34. Summary Estimates Including And Excluding Acquisition Assumptions

Estimates Assuming \$100 Million Of Annual Acquisition Activity						
<i>\$ in millions, except per unit data</i>	2011E	2012E	2013E	2014E	2015E	2016E
Estimated acquisition spending	\$0.0	\$100.0	\$100.0	\$100.0	\$100.0	\$100.0
Assumed equity financing		0%	50%	50%	50%	50%
Assumed EBITDA multiple	10.0x	10.0x	10.0x	10.0x	10.0x	10.0x
Total EBITDA	\$52.0	\$68.1	\$84.9	\$100.0	\$115.2	\$130.5
Cash interest expense	\$2.0	\$8.9	\$15.5	\$20.2	\$24.7	\$29.3
Maintenance capex	\$4.6	\$6.0	\$7.4	\$8.7	\$10.1	\$11.4
Other, net	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash paid to GP	\$0.8	\$1.0	\$2.4	\$4.0	\$5.6	\$8.0
Distributable cash flow	\$44.6	\$52.3	\$59.6	\$67.0	\$74.8	\$81.7
DCF per unit	\$1.46	\$1.71	\$1.94	\$2.10	\$2.23	\$2.33
Cash distribution declared per unit	\$1.35	\$1.52	\$1.75	\$1.89	\$2.01	\$2.09
Yr/yr distribution growth	NA	12.2%	15.7%	7.8%	6.1%	4.0%
Distribution coverage ratio	1.1x	1.1x	1.1x	1.1x	1.1x	1.1x
Excess cash flow	\$3.4	\$6.1	\$5.4	\$6.2	\$7.0	\$8.1
.....						
Estimates Assuming NO Acquisitions						
<i>\$ in millions, except per unit data</i>	2011E	2012E	2013E	2014E	2015E	2016E
Estimated acquisition spending	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Assumed equity financing	-	-	-	-	-	-
Assumed EBITDA multiple	-	-	-	-	-	-
Total EBITDA	\$52.0	\$58.1	\$64.9	\$70.0	\$75.2	\$80.5
Cash interest expense	\$2.0	\$3.4	\$5.3	\$7.3	\$8.9	\$9.9
Maintenance capex	\$4.6	\$5.1	\$5.6	\$6.0	\$6.5	\$6.9
Other, net	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash paid to GP	\$0.8	\$0.9	\$1.1	\$1.4	\$2.0	\$2.9
Distributable cash flow	\$44.6	\$48.7	\$52.9	\$55.2	\$57.8	\$60.7
DCF per unit	\$1.46	\$1.60	\$1.73	\$1.81	\$1.89	\$1.99
Cash distribution declared per unit	\$1.35	\$1.46	\$1.58	\$1.64	\$1.72	\$1.81
Yr/yr distribution growth	NA	7.8%	8.4%	4.0%	5.0%	4.9%
Distribution coverage ratio	1.1x	1.1x	1.1x	1.1x	1.1x	1.1x
Excess cash flow	\$3.4	\$4.3	\$4.8	\$5.1	\$5.2	\$5.6

Source: Wells Fargo Securities, LLC estimates

Financial Models

Figure 35. TLLP Income Statement

(\$ in millions except for per unit data)	FY 2011E				Proforma 2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E
	Proforma 3/31/11E	6/30/11E	9/30/11E	12/31/11E						
Crude oil gathering	12.0	12.4	13.0	13.3	50.8	56.5	64.3	68.9	74.8	80.6
Terminalling, transportation, and storage	11.2	11.3	11.4	11.4	45.2	49.0	51.7	53.2	54.9	57.1
Other revenues	0.0	0.0	0.0	0.0	0.0	10.0	20.0	30.0	40.0	50.0
Total Revenues:	23.2	23.7	24.4	24.7	96.0	115.5	136.0	152.0	169.7	187.7
Costs And Expenses:										
Operating and maintenance expenses	9.1	9.2	9.4	9.6	37.3	40.6	44.2	45.0	47.3	49.9
Depreciation expense	2.0	2.1	2.2	2.3	8.7	14.1	18.0	21.6	25.2	28.8
General and administrative	1.7	1.7	1.7	1.7	6.6	6.8	6.9	7.1	7.2	7.3
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total operating expenses	12.7	13.0	13.3	13.6	52.6	61.5	69.1	73.6	79.7	86.0
Operating Profit	10.5	10.7	11.0	11.2	43.3	54.0	66.9	78.4	90.0	101.6
Other Income (Expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense	0.6	0.6	0.6	0.6	2.4	9.3	15.9	20.3	24.7	29.3
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recurring net income	9.9	10.1	10.4	10.5	41.0	44.8	51.1	58.0	65.2	72.3
Net income per unit (EPU)	\$0.32	\$0.32	\$0.33	\$0.34	\$1.32	\$1.44	\$1.59	\$1.70	\$1.78	\$1.84
Weighted average L.P. units (diluted)	30.5	30.5	30.5	30.5	30.5	30.5	30.7	32.0	33.6	35.1
EBITDA Calculation										
Net Income	9.9	10.1	10.4	10.5	41.0	44.8	51.1	58.0	65.2	72.3
(+) Depreciation & Amortization	2.0	2.1	2.2	2.3	8.7	14.1	18.0	21.6	25.2	28.8
(+) Interest Expense	0.6	0.6	0.6	0.6	2.4	9.3	15.9	20.3	24.7	29.3
(+) Income tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(+) Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	12.5	12.8	13.2	13.5	52.0	68.1	84.9	100.0	115.2	130.5
Distributable cash flow										
Adjusted EBITDA	12.5	12.8	13.2	13.5	52.0	68.1	84.9	100.0	115.2	130.5
(-) Interest expense	0.5	0.5	0.5	0.5	2.0	8.9	15.5	20.2	24.7	29.3
(-) Maintenance capital expenditure	1.1	1.1	1.2	1.2	4.6	6.0	7.4	8.7	10.1	11.4
(-) Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(-) Minimum volume adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Available cash flow	10.9	11.2	11.6	11.8	45.5	53.3	62.0	71.0	80.4	89.7
Cash paid to general partner	0.2	0.2	0.2	0.2	0.8	1.0	2.4	4.0	5.6	8.0
Distributable cash flow	10.7	11.0	11.4	11.6	44.6	52.3	59.6	67.0	74.8	81.7
DCF per unit	\$0.35	\$0.36	\$0.37	\$0.38	\$1.46	\$1.71	\$1.94	\$2.10	\$2.23	\$2.33
Cash distribution declared per unit	\$0.34	\$0.34	\$0.34	\$0.34	\$1.35	\$1.52	\$1.75	\$1.89	\$2.01	\$2.09
Year-Over-Year Change						12.2%	15.7%	7.8%	6.1%	4.0%
Distribution coverage ratio	1.04x	1.06x	1.10x	1.12x	1.08x	1.13x	1.10x	1.10x	1.10x	1.10x
Excess cash flow (deficit)	0.4	0.7	1.1	1.3	3.4	6.1	5.4	6.2	7.0	8.1
Growth capex	0.0	2.6	2.6	2.6	7.8	25.0	25.0	25.0	25.0	25.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	100.0	100.0	100.0	100.0	100.0
Maintenance capex	1.1	1.1	1.2	1.2	4.6	6.0	7.4	8.7	10.1	11.4
CAPEX	1.1	3.7	3.8	3.8	12.4	131.0	132.4	133.7	135.1	136.4

Source: Wells Fargo Securities, LLC estimates

Figure 36. TLLP Balance Sheet

(\$ in millions except for per unit data)	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E
Assets						
Current assets						
Cash and cash equivalents	3.9	5.3	6.9	8.9	11.5	13.8
Accounts & notes receivable	0.0	0.0	0.0	0.0	0.0	0.0
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Other current assets, net	0.0	0.0	0.0	0.0	0.0	0.0
Total current assets	3.9	5.3	6.9	8.9	11.5	13.8
Property and equipment, net	135.3	252.2	366.6	478.8	588.7	696.2
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other intangibles, net	0.0	0.0	0.0	0.0	0.0	0.0
Other assets, net	2.0	2.0	2.0	2.0	2.0	2.0
Total assets	141.2	259.5	375.6	489.7	602.2	712.0
Liabilities						
Current liabilities						
Accounts payable	0.0	0.0	0.0	0.0	0.0	0.0
Current portion of LT debt	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities, net	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt	55.6	174.2	243.7	313.0	381.1	448.5
Other liabilities, net	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	55.6	174.2	243.7	313.0	381.1	448.5
Members' Equity						
Common and subordinate unitholders	84.7	85.3	133.8	182.4	231.8	281.7
General partner	1.7	1.8	3.2	4.3	5.7	7.1
Total equity	86.4	87.0	136.9	186.7	237.5	288.8
Other comprehensive income/(loss)	(0.8)	(1.8)	(5.1)	(9.9)	(16.4)	(25.3)
Total equity	85.5	85.2	131.8	176.8	221.1	263.5

Source: Wells Fargo Securities, LLC estimates

Figure 37. TLLP Cash Flow Statement

(\$ in millions except for per unit data)	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E
Operating Activities						
Net Income	41.0	44.8	51.1	58.0	65.2	72.3
Depreciation expense	8.7	14.1	18.0	21.6	25.2	28.8
Other	0.0	0.0	0.0	0.0	0.0	0.0
Changes in assets						
Accounts & notes receivable	0.0	0.0	0.0	0.0	0.0	0.0
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Other current assets, net	0.0	0.0	0.0	0.0	0.0	0.0
Changes in liabilities						
Accounts payable	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities, net	0.0	0.0	0.0	0.0	0.0	0.0
Other, net	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by operating activities	49.6	58.9	69.0	79.6	90.4	101.1
Investing Activities						
Capital expenditures	(12.4)	(31.0)	(32.4)	(33.7)	(35.1)	(36.4)
Acquisitions, net	0.0	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Other, net	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by investing activities	(12.4)	(131.0)	(132.4)	(133.7)	(135.1)	(136.4)
Financing Activities						
Proceeds/(repayment) of debt	5.6	118.6	69.5	69.2	68.1	67.5
Proceeds/(repurchase) of equity	0.0	0.0	50.0	50.0	50.0	50.0
Distributions to partners	(42.0)	(45.1)	(54.5)	(63.1)	(70.9)	(79.9)
Other, net	0.0	0.0	0.0	0.0	0.0	0.0
Net cash provided by financing activities	(36.4)	73.5	65.0	56.1	47.2	37.6
Change in cash and cash equivalents	0.9	1.5	1.6	2.0	2.6	2.3
Cash and equivalents at beginning of year	3.0	3.9	5.3	6.9	8.9	11.5
Cash and equivalents at end of year	3.9	5.3	6.9	8.9	11.5	13.8

Source: Wells Fargo Securities, LLC estimates

Figure 38. 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%
Terminals, 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	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

Appendix

Overview Of TSO's Portfolio Of Potential Drop-Downs

Following the close of TLLP's initial public offering, TSO still holds a portfolio of logistics assets that it could potentially sell to the partnership over time. Approximately 45% of TSO's logistics assets (based on book value as of December 31, 2010) were contributed in the formation of the partnership. TSO's remaining logistics assets, i.e., TLLP has a right of first offer (ROFO) to acquire, include three product terminals, two pipeline systems, and five marine terminals. Similar to TLLP's current asset base, these assets are tied to TSO's refining operations (i.e., Anacortes, Kenai, Los Angeles, and Martinez refineries). Notably, TSO's Rocky Mountain trucking operation and Hawaii logistics assets (i.e., mooring facility, pipeline, and neighboring refined product facilities) are not included in the partnership's ROFO agreement. This is largely due to the less stable cash flow profile of the assets.

Figure 39. Map Of TSO's Potential Drop-Down Assets



Source: Wells Fargo Securities, LLC

We anticipate that the initial drop-down could include a TSO refined products terminal or a pipeline given the similarity of these facilities to TLLP's existing asset base. Notably, management has indicated that some potential drop-down assets could have meaningful additional capex requirements, which would likely preclude the MLP from a near-term drop-down. For example, management believes the Golden Eagle Wharf will require a significant amount of capex to maintain compliance with numerous government mandates. Management estimates that initial capex investments could exceed \$100 million. Thus, we believe that TSO would refrain from initially dropping-down the Golden Eagle Wharf and other similar assets that require a significant amount of capital investments. We expect TSO to hold and develop these assets until they become MLP-suitable (i.e., stable, fee-based cash flow). Figure 40 provides an overview of assets which could be sold to the partnership over time.

Figure 40. TSO's Potential Drop-Down Portfolio

(Barrels per day unless noted otherwise)					
TSO ROFO Assets	2009 Throughput	2010 Throughput	2010 Total Capacity		Commodities Handled
			Throughput	Storage (Bbls)	
Alaska					
Nikiski Dock and Storage Facility	74,000	82,300	-	930,000	Crude Oil; Refined Product
Nikiski Refined Products Terminal	2,600	2,600	-	211,000	Refined Product
Tesoro Alaska Pipeline	31,000	36,000	48,000	-	Refined Product
Washington					
Anacortes Refined Products Terminal	1,700	1,700	-	-	Refined Product
Anacortes Marine Terminal and Storage Facility	54,000	30,800	-	1,400,000	Crude Oil; Refined Product
Northern California					
Golden Eagle Refined Products Terminal	15,100	14,100	38,000	-	Refined Product
Golden Eagle Marine Terminal	61,000	49,800	145,000	425,000	Crude Oil
Golden Eagle Wharf Facility	28,500	29,900	50,000	-	Refined Product
Southern California					
Los Angeles Pipeline System	45,200	42,200	-	-	Crude Oil; Refined Product
Long Beach Marine Terminal	104,200	98,800	-	-	Crude Oil; Refined Product

Source: Partnership reports

Alaska

- **Nikiski Dock and Storage Facility.** The facility is located at TSO's Kenai refinery and includes a single-berth dock and five crude oil storage tanks with total capacity of 930,000 bbls. The facility receives crude oil from marine vessels, pipelines, and trucks for delivery to TSO's refinery. In addition, the refinery transports refined products from the refinery to marine vessels for distribution. For the year ended December 31, 2010, the Nikiski Dock and Storage Facility had total crude oil and refined product throughput of 61,600 bbls per day and 20,700 bbls per day, respectively.
- **Nikiski refined products terminal.** The refined products terminal is also located at the Kenai refinery. It consists of a truck loading rack and six refined product storage tanks with total capacity of 211,000 bbls. The truck rack's two loading bays are supplied by pipeline from the refinery and affiliated storage facilities. Total refined product throughput in 2010 was 2,600 bbls per day.
- **Tesoro Alaska Pipeline.** TAPL is a 69 mile, 10-inch, state-regulated pipeline with 48,000 bbls per day of capacity. It delivers refined products from TSO's Kenai refinery to the Anchorage International Airport and a receiving station at the Port of Anchorage. Once at the receiving station, refined products can be transported to TLLP's Anchorage terminal and other third-party terminals. Total refined product throughput in 2010 was 36,000 bbls per day.

Washington

- **Anacortes refined products terminal.** The facility is located at TSO's Anacortes refinery and has a truck-loading rack with two loading bays. The truck rack receives and distributes diesel fuel from storage tanks at TSO's Anacortes refinery. The terminal handled 1,700 bbls per day of diesel fuel in 2010.
- **Anacortes Marine Terminal and Storage Facility.** Located at TSO's Anacortes refinery, the facility receives crude oil and other feedstocks from marine vessels and third-party pipelines for delivery to TSO's refinery. It has four storage tanks with 1,400,000 bbls of storage capacity for crude oil and other heavy products. The terminal also distributes refined products from the refinery to marine vessels. The Anacortes Marine Terminal and Storage Facility's 2010 average refined product and crude oil throughput was 30,800 bbls per day.

Northern California

- **Golden Eagle refined products terminal.** The terminal is located at TSO's Golden Eagle (Martinez) refinery and has throughput capacity of 38,000 bbls per day. The terminal's three truck racks receive refined products from TSO's refinery via pipelines. The terminal's 2010 average throughput was 14,100 bbls per day.
- **Golden Eagle Marine Terminal.** The Golden Eagle Marine Terminal is located on the Sacramento River near the Golden Eagle Refinery and has access to the San Francisco Bay. It includes a dock, five crude oil storage tanks with 425,000 bbls of capacity, and related pipelines. It supplies TSO's Golden Eagle refinery and Martinez Terminal with crude oil from marine vessels. Current throughput capacity is estimated to be 145,000 bbls per day. The terminal's average crude oil throughput was 49,800 bbls per day in 2010.
- **Golden Eagle Wharf facility.** The facility, which is on the Sacramento River, includes a dock and related refined product pipelines. The facility primarily receives refined products from TSO's Golden Eagle

Master Limited Partnerships

refinery for delivery to marine vessels. In addition, the wharf accepts refined products and other feedstock from marine vessels for delivery to the Martinez refinery. The wharf has an estimated total throughput capacity of 50,000 bbls per day. The Golden Eagle Wharf's average refined product throughput was 29,900 bbls per day in 2010.

Southern California

- **Los Angeles pipeline network.** TSO's Los Angeles pipeline system consists of 17 miles of crude oil and refined product pipelines (9 in total). The system transports crude, refined product, and feedstock between TSO's Los Angeles refinery, Long Beach terminal, and various third-party terminals. In 2010, the system's crude oil and refined product throughput was 33,100 and 9,100 bbls per day, respectively.
- **Long Beach Marine Terminal.** The terminal facilitates the delivery of crude oil and other feedstocks from marine vessels to TSO's Los Angeles refinery and other third-party terminals and refineries. The Long Beach Marine terminal also distributes refined products from TSO's Los Angeles refinery to marine vessels. The marine terminal had total throughput of 98,800 bbls per day as of December 31, 2010.

TSO's Refining Operations

Tesoro Corporation is the second-largest independent refiner and marketer in the United States and employs approximately 5,300 full-time employees. TSO owns seven refineries primarily in the Western United States, with total refining capacity of 664,500 bbls per day. In 2010, TSO's total refining yield was approximately 509,000 bbls per day and consisted of gasoline and gasoline blendstocks, 46%, heavy oils and residual products, 21%, diesel fuel, 20%, and jet fuel, 13%.

TLLP's logistics assets play an integral role in TSO's refinery operations. TLLP's assets supply the refineries with feedstock and distribute TSO's refined products to other third parties and end users. As shown in Figure 41, TLLP transports 79% and 100% of refinery feedstock to TSO's Salt Lake City and Mandan refineries, respectively. TLLP's terminal assets store or distribute refined products for six of TSO's seven refineries. Currently, TLLP does not handle any crude oil or refined product volume for TSO's refinery in Hawaii.

Figure 41. TSO's Refineries

(Barrels per day)				
TSO Refinery	Refining Capacity	% of Crude Oil and Feedstocks Handled by TLLP	% of Refined Products Handled by TLLP	Crude Oil Transportation Method
Los Angeles, California	97,000	-	33%	TSO Marine Terminal; Third-Party Pipelines
Martinez, California	166,000	-	6%	TSO & Third-Party Marine Terminals; Third-Party Pipelines
Salt Lake City, Utah	58,000	79%	91%	Third-Party Pipelines; TSO Trucking Operation
Kenai, Alaska	72,000	-	28%	TSO Marine Terminal; TSO & Third-Party Pipelines
Mandan, North Dakota	58,000	100%	19%	TLLP Pipeline
Anacortes, Washington	120,000	-	21%	TSO Marine Terminal; Third-Party Pipeline
Total (Refineries TLLP Services)	571,000			
Kapolei, Hawaii	93,500	-	-	TSO Mooring Point (i.e. Marine)
Total (All Refineries)	664,500			

Note: Data as of December 31, 2010

Source: Company and partnership reports

Overview of Tesoro's Refineries

Los Angeles, California refinery. TSO's Los Angeles refinery is located on 300 acres approximately 20 miles south of Los Angeles. It currently has a crude oil capacity of 97,000 bbls per day and processed an average of 98,800 bbls per day of crude oil and other feedstocks in 2010. TSO's Los Angeles refinery primarily produces California Air Resources Board (CARB) gasoline, CARB diesel fuel, conventional gasoline, diesel fuel, and jet fuel. The refinery also has the capability to produce heavy fuel oils, liquefied petroleum gas (LPG), and petroleum coke.

The Los Angeles refinery receives crude oil from (1) TSO's leased marine terminal at the Port of Long Beach and (2) third-party pipelines, which transport domestic crude from the San Joaquin Valley and Los Angeles Basin. Approximately 33% of total refined products produced from the refinery are distributed via TLLP's Los Angeles terminal. The remainder is transported through third-party refined product pipelines and terminals to end users in Southern California, Arizona, and Nevada. Notably, a small amount of refined products produced from the refinery is shipped to international markets from TSO's Long Beach marine dock.

Martinez, California (Golden Eagle) refinery. The refinery is located approximately 30 miles northeast of San Francisco on 2,200 acres in Martinez, California. It is TSO's largest refinery, with 166,000 bbls per day of refining capacity. In 2010, the Martinez refinery processed an average of 124,000 bbls per day 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 TSO's two marine and refined products terminals, TLLP's Stockton terminal, and third-party terminals. Notably, only 6% of the Martinez refinery's refined products are distributed through TLLP's Stockton terminal.

Salt Lake City, Utah refinery. TSO's 150-acre Salt Lake City refinery has a refining capacity of 58,000 bbls per day. In 2010, the refinery processed an average of 50,100 bbls per day of crude oil and other feedstock. The refinery produces transportation fuels (i.e., gasoline, diesel, and jet fuel), heavy fuel oils, and LPG.

The refinery's feedstock includes crude oil produced in Utah, Colorado, Wyoming, and Canada. Crude is transported to TSO's refinery through Plains All American's Pacific and Chevron's interstate pipelines. Notably, these are the only two crude oil pipelines that serve Salt Lake City, which has five refineries with approximately 190,000 bbls per day of refining capacity. In addition to third-party pipelines, the refinery receives crude oil through a proprietary Rocky Mountain crude oil trucking business. TSO distributes the refinery's product to Utah, Idaho, and eastern Washington through TLLP-owned and third-party terminals. Notably, TLLP's Boise and Burley terminals receive their refined product volume primarily from TSO's Salt Lake City refinery via Chevron's Northwest Refined Product Pipeline. In addition, TLLP owns 878,000 bbls of storage capacity and five short-haul pipelines adjacent to TSO's Salt Lake City refinery that transport crude oil and refined products to and from the refinery.

Kenai, Alaska refinery. The Kenai Refinery is located 60 miles southwest of Anchorage in Kenai, Alaska. The Kenai refinery has a current capacity of 72,000 bbls per day and processed 53,400 bbls per day of crude oil and other feedstock in 2010. The refinery primarily sources its crude oil from Alaska, but also uses foreign crude as feedstock. The Kenai refinery primarily produces gasoline, gasoline blendstocks, jet fuel, diesel fuel, heating oil, heavy fuel oils, LPG, and asphalt.

Located on the Cook Inlet, TSO's Kenai refinery receives crude oil from TSO's proprietary marine terminal, a third-party pipeline, trucks, and TSO's 24-mile pipeline, which is connected to the Cook Inlet oil field. Refined products are transported through TSO's TAPL pipeline to TLLP's Anchorage terminal and the Anchorage International Airport. Refined products are also distributed through TSO's Kenai marine terminal and the Port of Anchorage. Approximately 28% of Kenai's refined products are delivered to TLLP's Anchorage Terminal.

Mandan, North Dakota refinery. *For details on TSO's Mandan Refinery, please refer to page 20.*

Anacortes, Washington refinery. The Anacortes refinery is located on the Puget Sound, 70 miles north of Seattle, Washington. The refinery has total processing capacity of 120,000 bbls per day. Notably, the Anacortes refinery's naphtha hydrotreater was involved in a fire on April 2, 2010. The refinery was temporarily shut down to repair the unit. In November 2010, TSO's Anacortes refinery resumed operations at planned rates. As a result of the fire and subsequent down-time, the Anacortes refinery processed an average of 39,300 bbls per day in 2010. The refinery produces gasoline (including CARB gasoline), diesel fuel, jet fuel, heavy fuel oils, LPG, and asphalt.

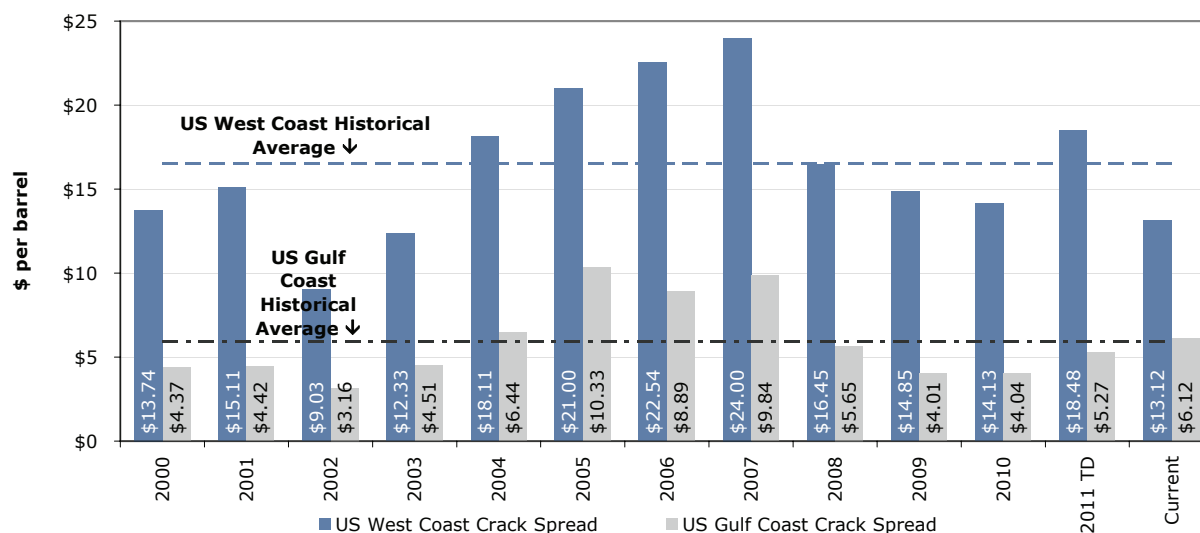
The Anacortes refinery receives most of its crude oil from Kinder Morgan's Trans Mountain Pipeline (i.e., Canadian crude) and TSO's marine terminal located at the refinery. Kinder Morgan's Trans Mountain is a 715-mile pipeline, which imports crude oil and refined products from Edmonton to Puget Sound. The pipeline services numerous refineries in the area and has an operating capacity of 300 Mbbls per day. The Anacortes refinery distributes refined product via (1) a third-party refined product pipeline, (2) TLLP's Vancouver terminal, and (3) TSO's marine terminal to markets in Washington, Portland, the West Coast, and Pacific Rim. Approximately 21% of the refinery's refined products are distributed through TLLP's Vancouver Terminal.

West Coast Crack Spreads Have Historically Been At A Premium To The Gulf Coast Spread

Since 2000, the West Coast crack spread (based on Bloomberg's Alaskan North Slope (ANS) Crude Oil 3-2-1 Crack Spread/U.S. West Coast) has averaged \$16.51 per bbl. The spread has averaged \$18.48 per bbl year to date and is currently at \$13.12 per bbl. Typically, crack spreads widen into the summer driving season due to increased demand.

Notably, the historical West Coast crack spread represents a 117% premium to the average Gulf Coast spread of \$7.59 per bbl (as measured by Bloomberg's WTI Cushing Crude Oil 3-2-1 Crack Spread/U.S. Gulf Coast). The variance is even greater when comparing the West Coast crack spread with the Gulf Coast assuming Louisiana light sweet (LLS) crude oil as the feedstock for the latter (i.e., 179% higher than the historical average of \$5.93 per bbl). The current and average year-to-date West Coast crack spreads of \$13.12 per bbl and \$18.48 per bbl, respectively, are significantly above the comparable Gulf Coast-LLS crack spreads of \$6.12 per bbl and \$5.27 per bbl.

Figure 42. West Coast Versus U.S. Gulf Coast Crack Spreads



Source: Bloomberg

MLP Glossary Of Terms

Available Cash Flow: Available cash flow is the cash flow available to the common unit holders and the general partner.

Backwardation: A market condition in which future commodity prices are lower than spot prices. A backwardated market usually occurs when demand exceeds supply.

Contango: A market condition in which future commodity prices are greater than spot prices. The higher future price is often due to the cost associated with storing and insuring the underlying commodity.

British Thermal Unit (Btu): A unit of measurement for energy representing the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit.

Current Yield: The current yield is calculated by taking the current declared quarterly distribution annualized and dividing it by current stock price.

Dekatherm: A dekatherm is a measurement of energy content. One dekatherm is the approximate energy content of 1,000 cubic feet of natural gas (or 1 Mcf).

Distributable Cash Flow (DCF): DCF is the cash flow available to be paid to common unit holders after payments to the general partner.

Distribution (Dividend) Discount Model (DDM): DDM is an equity valuation tool used to estimate the present value of a stock based on the expected distributions (or dividends/future cash flow) received from the company.

Distribution: In a typical partnership agreement, the MLP is required to distribute all of its "available cash." MLPs typically distribute all available cash flow (i.e. cash flow from operations less maintenance CAPEX) to unit holders in the form of distributions (similar to dividends). However, management typically has some discretion in how much cash flow they choose to pay out.

Distribution Coverage Ratio: The coverage ratio indicates the cash available for distribution for every dollar to be distributed. The ratio is calculated by dividing available cash flow by distributions paid. Investors typically associate as the "cushion" a partnership has in paying its cash distribution. In this context, the higher the ratio, the greater the safety of the distribution.

Dropdown: A dropdown is the sale of an asset from the parent company (or sponsor company) to the underlying partnership. Dropdowns can also be defined as a transaction between two affiliated companies.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA): EBITDA is a non-GAAP measure used to provide an approximation of a company's profitability. This measure excludes the potential distortion that accounting and financing rules may have on a company's earnings; therefore, EBITDA is a useful tool when comparing companies that incur large amounts of depreciation expense because it excludes these non-cash items which could understate the company's true performance.

Earnings Per Unit (EPU): An MLP's EPU is synonymous with a C corp.'s earnings per share (EPS). EPU is calculated by dividing net income allocated to the limited partners divided by the weighted average units outstanding at the end of the period.

EBITDA Multiple: An EBITDA multiple is the expected return an acquisition or organic growth project is estimated to generate. For example, a \$100 million investment at an 8x EBITDA multiple, would be expected to generate approximately \$12.5 million of EBITDA on an annual basis (or a 12.5% return).

Excess Cash Flow: Excess cash flow is the cash flow that remains after distributions have been paid to common and subordinated unit holders and general partner.

Fractionation: Fractionation is the process that involves the separation of the NGLs into discrete NGL purity products (i.e. ethane, propane, normal butane, iso-butane, and natural gasoline).

Frac Spread (also known as "Processing Margin"): The processing margin is the difference between the price of natural gas and a composite price for NGLs on a BTU-equivalent basis.

General Partner (GP): The GP (1) manages the day-to-day operations of the partnership, (2) generally has a 2% ownership stake in the partnership, and (3) is eligible to receive an incentive distribution (through the ownership of the MLPs' incentive distribution rights).

Incentive Distribution Rights (IDRs): IDRs allow the holder (typically the general partner) to receive an increasing percentage of quarterly distributions after the MQD and target distribution thresholds have been achieved. In most partnerships, IDRs can reach a tier wherein the GP is receiving 50% of every incremental dollar paid to the LP unit holders. This is known as the 50/50 or "high splits" tier.

Limited Partner (LP): The LP (1) provides capital, (2) has no role in the MLPs' operations or management, and (3) receives cash distributions.

Liquid Petroleum Gases (LPGs): LPGs are created (as a byproduct) during the refining of crude oil or from natural gas production. LPGs are typically a mixed form of propane and butane.

Maintenance Capital Expenditures (CAPEX): Maintenance CAPEX is the investment required to maintain the partnership's existing asset.

Natural Gas Liquids (NGLs): NGLs are extracted from the raw natural gas stream into a liquid mix (consisting of ethane, propane, butane, iso-butane, and natural gasoline). The NGLs are then typically transported via pipelines to fractionation facilities.

Organic Growth Capital Expenditures (CAPEX): Organic CAPEX is investments used to expand a company's operating capacity or operating income over the long-term.

Processing: Natural gas processing involves the separation of raw natural gas into "pipeline quality" gas and natural gas liquids.

Tax Deferral Rate: A percentage of the cash distribution to the unit holder that is tax deferred until the security is sold. The tax deferral rate on distributions ranges from 40-90%. The tax deferral rate is an approximation provided by the partnership and is only effective for a certain period of time.

Energy Industry Abbreviations

bbls: Barrels

Bcf/d: One billion cubic feet per day

But: One thousand Btus.

Mcf: One thousand cubic feet of natural gas.

Mbbls: One thousand barrels.

Mbbls per day: One thousand barrels per day.

MM: In millions.

MMbbls: One million barrels.

MMbbls per day: One million barrels per day.

MMBtu: One million Btus.

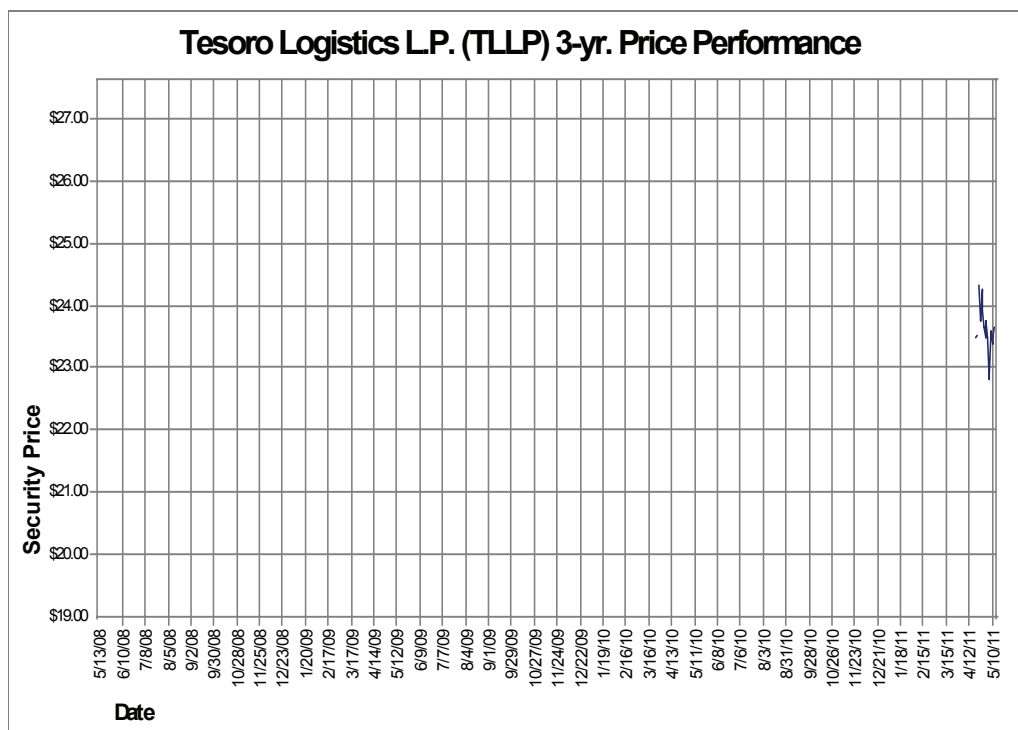
MMBtu/d: One million Btus per day.

MMcf: One million cubic feet of natural gas.

MMcf/d: One million cubic feet of natural gas per day.

Tcf: One trillion cubic feet of gas.

Required Disclosures



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

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- Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

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ENERGY

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Exploration & Production
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Master Limited Partnerships
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Utilities
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Oilfield Services and Drilling
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Christopher W. Wicklund (212) 214-8028
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INDUSTRIAL

Aerospace & Defense
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Automotive/Industrial and Electrical Products
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Diversified Industrials
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Machinery
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Ocean Shipping
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Transportation
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RETAIL RESEARCH MARKETING

Retail Research Marketing
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FINANCIAL SERVICES

Asset Management
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Brokers/Exchanges
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Insurance
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MEDIA & TELECOMMUNICATIONS

Broadcasting & Cable
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Telecommunication Services - Wireless/Wireline
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TECHNOLOGY & SERVICES

Communication Technology
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Information Technology (IT) Services
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Semiconductors
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STRATEGY

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Strategic Indexing
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