BARCLAYS CAPITAL

EQUITY RESEARCH

Energy | U.S. MLPs | 8 June 2011

TESORO LOGISTICS LP

Initiate Bakken & Drop Down Play at 1-OW

We are initiating coverage of Tesoro Logistics, L.P. (TLLP) with a 1-Overweight rating and $28 price target. Our price target is based on a forward 12-month distribution run rate of $1.48 and a target yield of 5.3%. We view TLLP as a high-growth, relatively low-risk crude oil/refined products pipeline MLP with an attractive total return value proposition of 15.5%, comprised of 5.5% yield and 10% growth (3-year CAGR). Growth visibility supported by organic projects, including the emerging Bakken Shale, drop down opportunities and increased asset utilization by third parties. With an expected 10% distribution growth rate, TLLP is the only crude oil/refined products MLP in our coverage universe with forecasted double-digit growth.

Bakken and dropdown exposure. TLLP was spun-off from independent refiner Tesoro (TSO) to unlock shareholder value and grow the midstream business. The tax advantaged MLP structure provides a valuation premium vs. C-corps, a lower cost of capital, and allows management to focus on midstream cash flow growth. We believe TLLP's key growth drivers are crude oil pipeline expansions in the Bakken and asset dropdowns from TSO, which could double EBITDA to more than $100MM.

Stable cash flows. Approximately 84% of revenues are backed by minimum pipeline and storage volume commitments with TSO. Stability is underpinned by 10-year contracts (except trucking at 2 years) with minimal direct commodity price exposure (nearly 100% fee-based revenue) and inflation protection (fees adjusted by PPI, CPI).

Risks to our estimates, valuation. The biggest risk is customer concentration, with the parent comprising approximately 95% of revenues. Other risks include rising interest rates, declining refined products demand and MLP tax status removal. Upside potential to our estimates include contributions from acquisitions and increased asset utilization.

TLLP: Quarterly and Annual EPS USD

	2010	2011			2012			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2011	2012
Q1	N/A	N/A	0.32E	N/A	N/A	0.33E	N/A	N/A	3%
Q2	N/A	N/A	0.31E	N/A	N/A	0.37E	N/A	N/A	19%
Q3	N/A	N/A	0.34E	N/A	N/A	0.43E	N/A	N/A	26%
Q4	N/A	N/A	0.35E	N/A	N/A	0.42E	N/A	N/A	20%
Year	N/A	N/A	1.32E	N/A	N/A	1.55E	N/A	N/A	17%
P/E			18.5			15.8			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

Stock Rating	1-OVERWEIGHT from N/A
Sector View	2-NEUTRAL Unchanged
Price Target	USD 28.00 from N/A

Price (07-Jun-2011)	USD 24.42
Potential Upside/Downside	+15%
Tickers	TLLP

Market Cap (USD mn)	361
Shares Outstanding (mn)	14.95
Free Float (%)	82.69
52 Wk Avg Daily Volume (mn)	0.5
Dividend Yield (%)	N/A
Return on Equity TTM (%)	N/A
Current BVPS (USD)	8.84

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 25.67-22.21

Link to Barclays Capital Live for interactive charting

U.S. MLPs

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COMPANY SNAPSHOT

Tesoro Logistics LP U.S. MLPs

Income statement ($mn)	2010A	2011E	2012E	2013E	CAGR
EBITDA	na	52	62	78	NA
EBIT	na	43	51	66	NA
Pre-tax income	na	41	49	60	NA
Net income	na	41	49	60	NA
Reported EPS	na	$1.32	$1.55	$1.76	NA
Diluted shares (m)	na	31	31	33	NA
Cash Distribution per Unit	na	$1.35	$1.51	$1.66	NA
Balance Sheet and Cash flow ($m)					**CAGR**
Cash	na	12	9	18	NA
Net PP&E	na	138	148	257	NA
Debt	na	54	57	112	NA
Operating cash flow	na	35	59	72	NA
Distributable cash flow	na	46	54	66	NA
Valuation and leverage metrics					**Average**
Distribution coverage ratio %	na	108.8	115.2	116.3	113
EV/EBITDA (x)	na	15.0	12.8	10.1	12.6
EV/EBITDA less MC, GP (x)	na	16.7	14.2	11.3	14.0
Price/DCF(x)	na	16.2	13.8	12.4	14.1
EBITDA/interest expense (x)	na	22.8	23.7	13.3	19.9
Net debt/EBITDA (x)	na	1.0	0.9	1.4	1.1
Operating metrics (volumes in 000 bpd)					**Average**
Crude oil pipeline volumes	na	57.1	59.5	60.7	59.1
Trucking volume	na	22.7	23.7	24.4	23.6
Terminal volumes	na	116.5	116.4	117.6	116.8
Short-haul pipeline volumes	na	64.3	69.5	72.0	68.6
Storage capacity (000 bbls)	na	878.0	878.0	886.0	880.7

Source: Company data, Barclays Capital

Stock Rating	1-OVERWEIGHT
Sector View	2-NEUTRAL
Price (07-Jun-2011)	$24.42
Price Target	$28
Ticker	TLLP

Investment case

TLLP is a high-growth, relatively low-risk crude oil/refined products pipeline MLP with an attractive mid-teens total return value proposition. Growth supported by organic projects, including the emerging Bakken Shale, and asset drop downs. Stability supported by long-term volume commitments from parent.

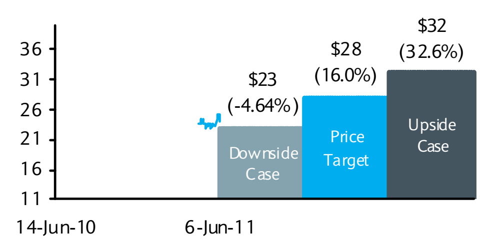
Upside case $32

Could see upside from asset drop down or third party acquisition over next 12 months. A $100MM acquisition could drive higher growth rate, increasing forward distribution estimate to $1.58 and lowering target yield to 5%.

Downside case $23

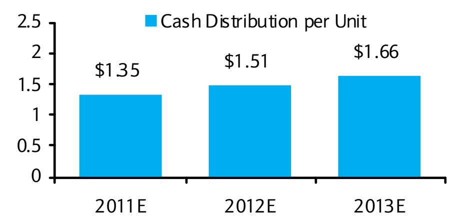
Weakening macro conditions or failure to generate expected returns on current growth projects could increase equity risk premium, increasing target yield to 6% and lowering forward distribution estimate to $1.38.

Upside/downside scenarios



Source: FactSet

Cash Distribution per Unit



Note: FY end Dec.

Investment Thesis

TLLP is a crude oil/refined products pipeline and storage MLP with visible growth prospects, a relatively low risk profile and strategically located assets. The Partnership offers an attractive total return value proposition of 15.5%, comprised of a 5.5% yield (as of 6/7/11) and 10% expected distribution growth (our 3-year CAGR forecast). Upside potential to our growth estimates could come from more immediate asset drop downs from parent Tesoro (TSO, $21.88, 2-Equal Weight/3-Negative by Barclays Capital U.S. Independent Refiners analyst Paul Cheng). We take a conservative approach and assume no drops in 2011 or 2012 and only a $100MM drop in 2013. Long-term distribution growth prospects are supported by additional organic expansion projects in the emerging Bakken Shale, including pipeline interconnects to transport third-party crude oil volumes as production in the region is expected to double over the next five years. TLLP was spun off from independent refiner TSO to unlock the value and provide a growth vehicle for the midstream business. TLLP offers an opportunity for investors to get into the early stages of a developing growth partnership in the relatively stable crude oil/refined products pipeline subsector.

Visible growth prospects

We believe TLLP is well positioned to post 10% distribution growth (3-year CAGR), supported by organic growth projects, including the emerging Bakken Shale, and asset drop downs.

An expansive opportunity set to grow the distribution is supported by organic projects, asset drop downs from the GP, potential third-party acquisitions and increased capacity utilization from being a standalone midstream entity (vs. primarily a cost center within a refiner). It is important to highlight that modest-scale expansion capex is capable of driving solid accretion given TLLP's relatively small distributable cash flow base ($46MM) and low cost of capital (approximately 6%). Near term, TLLP has ample financial flexibility with $100MM of borrowing availability on its $150MM revolver, enabling financing of initial expansion capex without having to raise equity, which drives accretion.

We believe TLLP is well positioned to post 10% distribution growth (3-year CAGR), supported by organic growth projects, including the emerging Bakken Shale and asset drop downs. Near-term growth is visible with five small but high-return organic projects (High Plains crude gathering and terminal expansions in Burley, Los Angeles, Salt Lake City and Stockton) expected to generate $10mm/yr or 18% EBITDA growth starting 2Q12.

Figure 1: Current TLLP Organic Growth Projects (units in $MM)

Project	Capex	EBITDA	Expected Completion	Description
High Plains pipeline	$6.6	$6.0	2Q12	support TSO Mandan refinery expansion
Burley terminal	1.2	0.1	1Q12	ethanol blending
Salt Lake City terminal	1.2	1.4	2Q12	ethanol blending
Stockton terminal	4.5	2.6	1Q12	capacity expansion
Los Angeles terminal	2.0	0.4	1Q12	transmix services for TSO LA refinery
Total	**$15.5**	**$10.5**		

Source: Company reports

Organic Projects

Over the next 12 months, TLLP is expected to complete five projects with a total cost of $15.5MM and expected EBITDA of $10.5MM or a very attractive 1.5x multiple. The existing organic projects would generate EBITDA growth of 18% vs. LTM 1Q12.

High Plains (Bakken) crude gathering expansion. Of the existing five organic projects, the Bakken expansion is expected to generate the most cash flow at $6MM or approximately 60% of the $10.5MM of EBITDA from the projects. The $6.6MM High Plains expansion will add pumping, tankage and truck unloading capacity related to TSO's 10,000 bpd Mandan, ND refinery expansion.

In terms of TLLP's other current projects, the Burley, ID and Salt Lake City, UT terminals will add ethanol blending. Total project cost is $2.4MM with expected EBITDA of $1.5MM. At the Stockton, CA terminal, TLLP will add 8,000 bpd of storage capacity to gain more of TSO's throughput volumes. The $4.5MM project is expected to generate EBITDA of $2.6MM. At its Los Angeles, CA terminal, TLLP will add transmix transportation capability to serve TSO's Los Angeles refinery. The $2MM project is expected to generate EBITDA of $0.4MM.

Acquisitions

We believe another leg of TLLP's growth stool is asset drop down opportunities from parent TSO. TLLP has right of first offer on TSO's midstream assets for 10 years. While timing of drop downs is uncertain, we estimate the probability of drop downs is high given TSO's incentive to maximize shareholder value by selling midstream assets to the tax-advantaged MLP while also receiving distributions as the owner of the general partner and 50% of the limited partner units.

In terms of the size of the drop down opportunity set, TLLP has not provided a market value or EBITDA estimate. While a blunt instrument, the book value estimate of midstream assets at TSO is $240MM vs. $193MM book value of assets currently in TLLP. On a rough basis, we estimate market value of potential dropdowns at $500MM and EBITDA of $50MM-$63MM (assuming 8-10x multiple), roughly double TLLP's expect forward 12-month EBITDA.

We conservatively estimate TLLP dropdown schedule at $0 in 2011, $0 in $2012, $100MM in 2013, $125MM in 2014 and $150MM in 2015. However, we would not be surprised if a drop to TLLP occurred in 2012 or even late 2011.

Figure 2: Potential Asset Drop Downs

Asset	Location	Description
Refined products terminals	Martinez, CA	38,000 bpd
Refined products terminals	Nikiski, AK	211,000 barrels storage capacity & 2,6000 bpd truck rack
Refined products terminals	Anacortes, WA	1,700 bpd
Marine terminals	Long Beach, CA	104,200 bpd crude/refined products
Marine terminals	Martinez, CA	61,000 bpd crude and 425,000 barrels storage
Marine terminals	Martinez, CA	product wharf with limited volumes currently
Marine terminals	Nikiski, AK	74,000 bpd crude/refined products and 930,000 barrels storage
Marine terminals	Anacortes, WA	54,000 bpd crude/refined products and 1.4MM barrels storage
Pipelines	Nikiski, AK	31,000 bpd volume serving TSO AK refinery
Pipelines	Los Angeles, CA	9 lines with 45,000 bpd volume serving TSO LA refinery

Source: Company reports

While third-party acquisitions are also a possibility for TLLP, we expect the Partnership to focus on organic projects and drop downs over the next few years, as that opportunity set supports 10% plus distribution CAGR.

Potential for increased capacity utilization

As a standalone midstream company, TLLP has potential to increase asset utilization by increasing TSO and third-party volumes on its crude oil gathering and terminalling assets. For example, TLLP could add third-party volumes on its High Plains crude gathering system in the Bakken. In addition, the Partnership has room to increase TSO volumes at its California and Washington state refined products terminals and third-party volumes at other terminals.

Relatively low risk profile

Approximately 84% of TLLP revenues are backed by minimum pipeline and storage volume commitments from TSO.

TLLP has a relatively low risk profile due its stable, fee-based cash flow stream backed by long-term minimum volume commitments from TSO. Approximately 84% of TLLP revenues are backed by minimum pipeline and storage volume commitments from TSO. Stability is underpinned by 10-year contracts (except trucking with 2 years) that provide minimal direct commodity price exposure (nearly 100% fee-based revenue) and inflation protection (fees adjusted by PPI, CPI). The High Plains truck gathering contracts was set at 2 years to benefit from expected higher rates due to a ramp in Bakken crude production.

Figure 3: Minimum Volume Commitments with Inflation Protection

	Contract (years)	Min Volumes (a)	% of Total	Fee Escalator
High Plains pipeline	10	49,000	84%	FERC Index
High Plains trucking	2	22,000	96%	CPI
Terminalling	10	100,000	87%	CPI
Salt Lake City pipelines	10	54,000	82%	CPI
Salt Lake City storage	10	878,000	100%	CPI

Source: Company filings

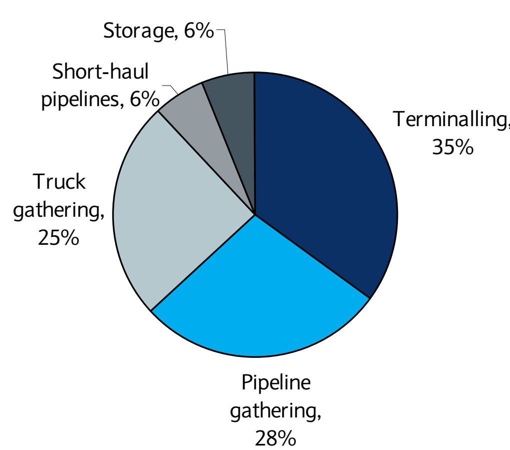
Reasonable business mix and geographic diversification for a young partnership

While TLLP currently lacks customer mix diversification, with TSO comprising approximately 95% of revenues, TLLP does have asset and geographic diversification. TLLP's five business lines comprise a diversified revenue mix -- Terminalling 35%, Pipeline Gathering 28%, Truck Gathering 25%, Short-Haul Pipeline Transportation 6% and Storage 6% of sales. On geographic footprint, TLLP assets are integrated with TLLP refining and marketing activities. TLLP assets are located in seven states -- North Dakota, Montana, California, Idaho, Utah, Washington, and Alaska.

Low financial leverage

TLLP has low leverage with Debt/EBITDA of 1x. In addition, the Partnership has $100MM of borrowing availability on its $150MM revolver, which is more than adequate to fund $10MM of current organic growth projects over the next 12 months and a potential drop down. The Partnership borrowed $50MM under the revolver at the close of IPO to fund a cash distribution to TSO (in addition to $280MM of IPO proceeds) to pay for the contributed assets and capex. The $150MM revolver is expandable to $300MM, matures April 25, 2014 and allows a maximum Debt/EBITDA of 4.5x. As TLLP ramps up expansion with drop downs or additional growth projects, we would expect normalized Debt/EBITDA in the 3x range.

Figure 4: TLLP Revenue Mix



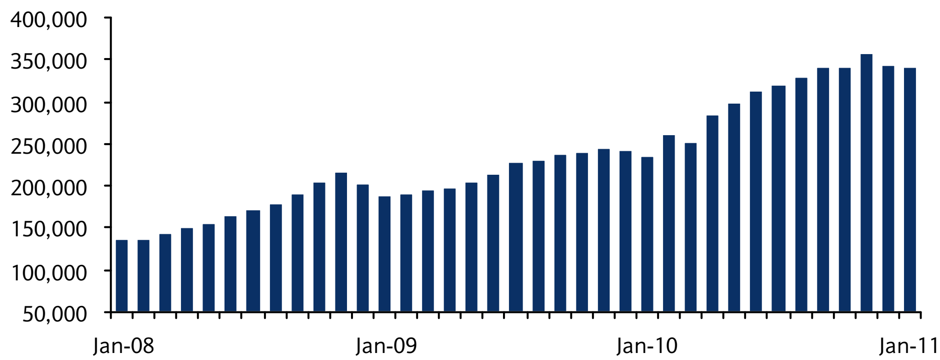
Source: Company filings, Barclays Capital estimates

Strategically-Located Assets

TLLP's High Plains system is strategically located not only because of its footprint in the emerging Bakken but also as the only crude oil supply source for the only refinery in North Dakota, TSO's Mandan refinery.

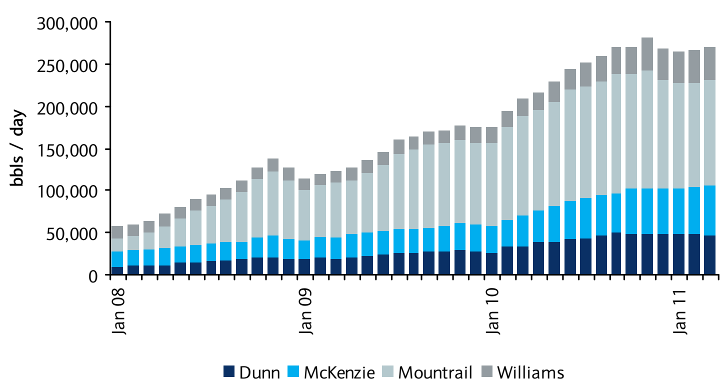
TLLP's asset base is well positioned in both the emerging Bakken Shale (North Dakota, Montana) and western US. We believe the Partnership's key asset is its Bakken (High Plains) crude oil gathering system. The Bakken is a prolific region poised for continued strong production growth due to an 83% YoY increase in proved crude oil reserves to 1.058 billion barrels (according to EIA). Driven by technological advances in horizontal drilling, fracturing and completion, North Dakota crude production increased 78% from 2008-2010 (175,000 to 307,000 bpd) and is expected to more than double to approximately 700,000 bpd in the next 5 years (PIRA Energy Group forecast) and 1MM bpd by 2020 (Cambridge Energy Research Associates forecast). TLLP's High Plains system is strategically located not only because of its footprint in the emerging Bakken but also as the only crude oil supply source for the only refinery in North Dakota, TSO's Mandan refinery. The High Plains system volume growth is also supported by the Mandan refinery's 10,000 bpd expansion to 68,000 bpd by 2Q12. In addition, the High Plains system has growth opportunities from adding third-party volumes through pipeline interconnects.

Figure 5: North Dakota Crude Oil Production (barrels per day)



Source: US Energy Information Administration

Figure 6: Bakken Four County Production (North Dakota)



Source: North Dakota Industrial Commission, Oil & Gas Division

Other potential growth opportunities in the Bakken include increasing High Plains pipeline volumes by adding pumping capacity or building new gathering lines and building a rail facility at the Mandan refinery to transport crude (beyond Mandan's 68,000 bpd capacity in 2Q12) markets outside ND. In the Western US, TLLP's terminals and pipelines benefit from integration with TSO's refining and marketing operations and more stringent regulatory climate (California, Washington) that acts as a potential barrier to entry from competitors.

TLLP deserves a premium valuation vs. MLP peers due to its visible growth prospects, Bakken exposure, asset drop down potential, low cost of capital and high cash flow stability.

Attractive total return valuation proposition

TLLP offers (as of 6/7/11 close) an attractive total return value proposition of 15.5%, comprised of 5.5% yield and 10.0% growth (3-year CAGR forecast), which is above peer average total return of 11.5% and our MLP coverage universe of 12.0%. Because of its higher expected growth rate, nearly double peer average, TLLP trades at a premium to peers on both a yield and EV/Adjusted EBITDA basis. In terms of yield, TLLP trades a 5.5% yield vs. peer yield of 6.2% and our MLP coverage universe of 6.6%. On EV/Adjusted EBITDA (2011e/2012e) basis, TLLP trades at 16.9x/14.4x vs. 14.4x/12.8x peers and 13.1x/11.5x MLP universe. In terms of distribution coverage, TLLP is in line with peers at 1.1x. Our coverage universe coverage is a little higher at 1.2x due to commodity-exposed names needing to keep higher coverage due to higher cash flow volatility vs. fee-based crude/refined product names.

We believe that TLLP deserves a premium valuation vs. MLP peers due to its visible growth prospects, Bakken exposure, asset drop down potential, low cost of capital and high cash flow stability. In addition, TLLP offers exposure to the early stages of a developing growth partnership in the relatively stable crude oil/refined products pipeline subsector.

Figure 7: TLLP Comps

Name	Dividend Yield	3-Year Dividend CAGR	Expected Total Return	2011e EV/ Adj EBITDA - Maint Capex	2012e EV/ Adj EBITDA - Maint Capex	2011e Distribution Coverage
Tesoro Logistics L.P.	**5.5%**	**10.0%**	**15.5%**	**16.9x**	**14.4x**	**1.10x**
Buckeye Partners L.P.	6.6%	5.1%	11.7%	14.0x	12.8x	1.07x
Holly Energy Partners L.P.	6.4%	4.9%	11.4%	13.9x	11.4x	1.02x
Magellan Midstream Partners L.P.	5.3%	6.8%	12.1%	15.5x	14.4x	1.22x
NuStar Energy L.P.	6.8%	3.3%	10.1%	14.9x	13.1x	1.09x
Sunoco Logistics Partners L.P.	5.8%	6.3%	12.1%	13.5x	12.5x	1.27x
Average	**6.2%**	**5.3%**	**11.5%**	**14.4x**	**12.8x**	**1.13x**
BarCap MLP Coverage Universe	**6.6%**	**5.5%**	**12.0%**	**13.1x**	**11.5x**	**1.19x**

(a) Adjusted EBITDA = EBITDA less maintenance capex less general partner distribution

Source: Barclays Capital estimates, FactSet

Investment case $28 price target

Our $28 price target is based on a 12-month distribution run rate of $1.48 and a target yield of 5.3%. Based on our price target, TLLP offers an attractive implied 12-month total return is 18.8% vs. 15.3% peer average. Our distribution estimate and yield are predicated on a 10% distribution growth CAGR driven primarily by organic projects and an asset drop down in 2013.

Upside case $32 valuation

In an upside scenario, we believe TLLP could exceed our distribution growth estimate with an asset drop down or third-party acquisition within the next 12 months. Assuming a $100MM transaction at an 8x multiple would imply a 12-month price target of $32 per unit. The $32 valuation would be based on a 12-month forward distribution estimate of $1.58 (up from $1.48) and target yield of 5% (modest compression from 5.3%) due to accretion from a $100MM acquisition at 8x multiple.

Downside case $23 valuation

In a downside scenario, we estimate a 12-month price target of $23 per unit. Downside potential could come from a higher target yield, due to the market demanding a higher equity risk premium due to macro conditions and/or TLLP not achieving expected returns on current growth projects. A $23 valuation could be based on a 12-month distribution estimate of $1.38 (down from $1.48) and a target yield of 6% (expansion from 5.3%).

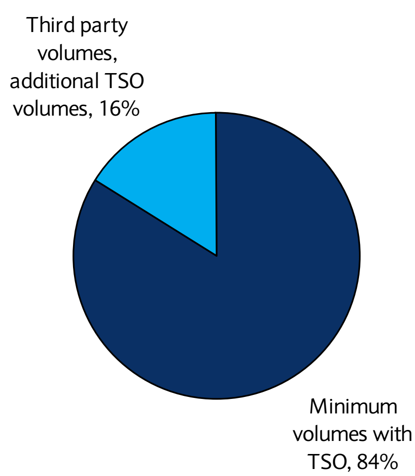
Tax Deferral

TLLP's distribution is approximately 80% tax deferred. That means of the current $1.35 per unit distribution, a unitholder would pay ordinary income taxes on $0.27 (20% of distribution), with the remaining $1.08 (80% of distribution) reducing a unitholder's basis. The 80% tax deferral level is in line with the MLP sector and represents an important component of the value proposition.

Tesoro Logistics Overview

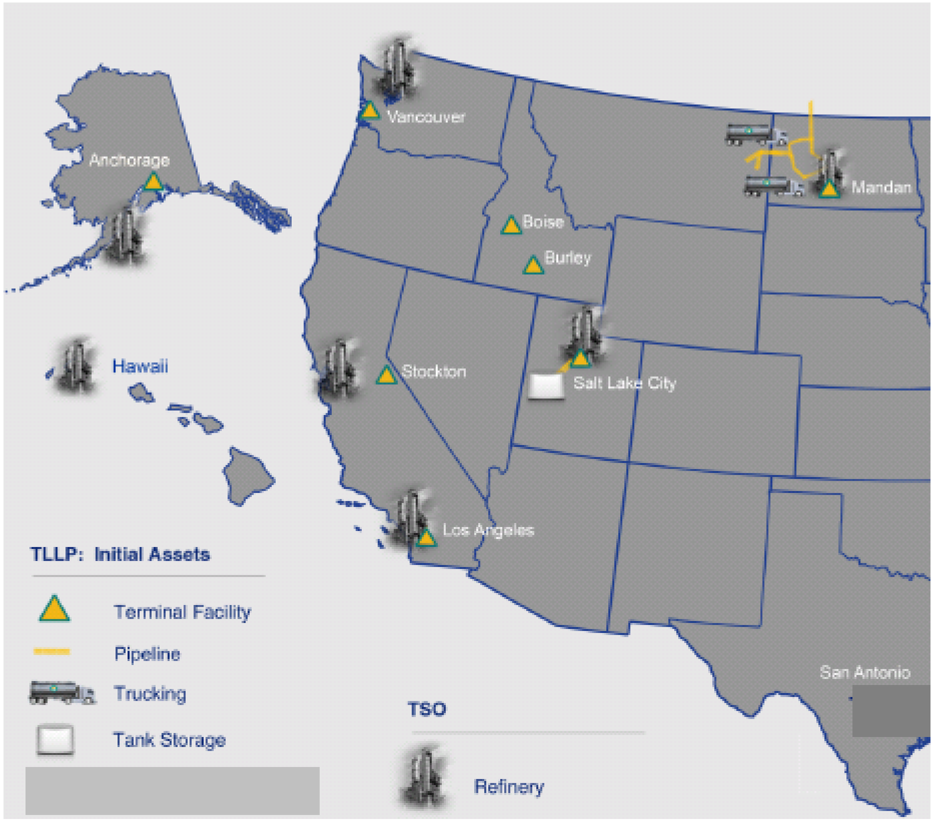
Tesoro Logistics LP (TLLP) is a crude oil/refined product pipeline and storage MLP, headquartered in San Antonio, that was spun-off from independent refiner Tesoro (TSO) in April 20, 2011 IPO. In the transaction, 14.95MM units were issued at $21 per unit (with a 6.4% yield). TLLP was created to facilitate the growth of TSO's midstream business and unlock value through the tax-advantaged MLP structure. TSO owns a 52% interest in TLLP, comprised of a 50% LP and 2% GP interest. TSO owns 15.255MM subordinated units, 304,890 common units and 622,649 general partner units. The public owns a 48% LP stake, with 14.95MM common units. TLLP midstream assets are integrated with TSO's refining and marketing business. The Partnership's assets are comprised of a crude oil gathering system in the Bakken Shale/Williston Basin in ND and MT, 8 refined products terminals in the midwest and western US and a crude oil/refined products storage facility and short-haul pipelines in Utah. TLLP has two operating segments, crude oil gathering and terminalling, transportation, storage. Revenue mix is 53% crude oil gathering/47% terminalling, transportation, storage. TLLP has long-term take-or-pay contracts with TSO for minimum volume commitments in both segments, comprising 84% of total revenues. The remaining 16% of revenues is from TSO volumes beyond the minimum level and third party volumes.

Figure 8: Minimum volume commitments comprise 84% of revenues



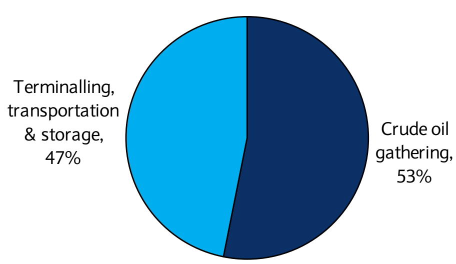
Source: Company filings

Figure 9: TLLP Midstream Assets Integrated with TSO Refineries



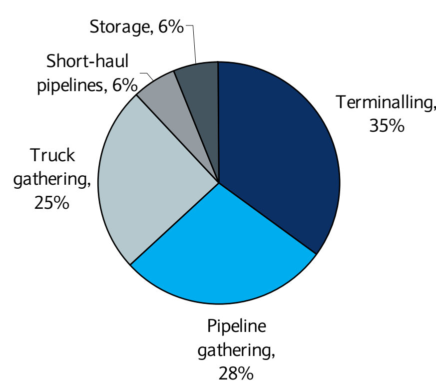
Source: Company filings

Figure 10: TLLP segment revenue mix



Source: Company filings

Figure 11: Breaking down revenue mix



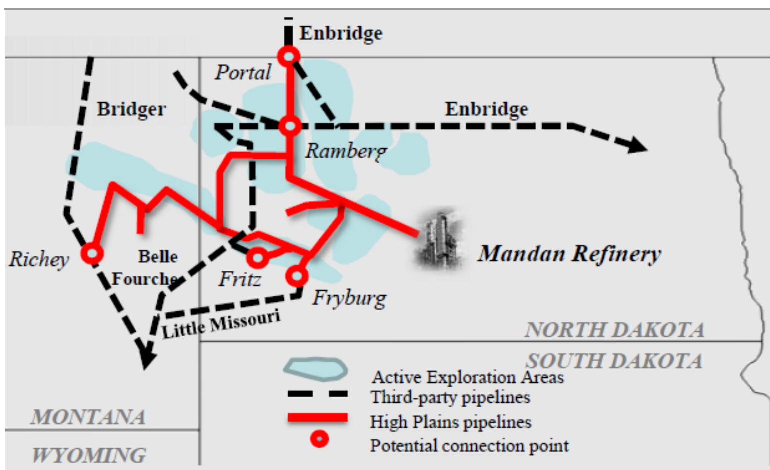
Source: Company filings

Crude Oil Gathering

The Crude Oil Gathering segment accounts for approximately 53% of our estimate for TLLP's 2011 EBITDA. The segment's asset is the High Plains system, which gathers and transports crude produced in the emerging Bakken Shale (North Dakota and Montana) to TSO's Mandan, ND refinery. The High Plains system is comprised of a 700-mile, 70,000 bpd capacity pipeline system (plus related storage) and 23,000 bpd of truck-based crude gathering. Currently, the only destination point for the High Plains pipeline and truck volumes is TSO's Mandan refinery. However, TLLP is exploring ways to diversify its revenue stream by adding third party shippers and interconnects with non-TSO pipes. There are five potential pipeline interconnects – Enbridge pipe at Portal and Ramburg, ND, Little Missouri pipe at Fryburg, ND, Belle Fourche pipe at Fritz, ND, Bridger pipe at Richey, MT. Integration with the Mandan refinery is a positive for TLLP, as TSO is currently in the process of expanding refining capacity by 10,000 bpd to 68,000 bpd by 2Q12, which provides visible growth for the High Plains system.

Crude Oil Gathering segment revenue mix is 53% pipelines and 47% truck gathering. Approximately 81% of segment revenue is derived from contracted minimum volume commitments with the parent. TSO's required minimum crude oil volumes of 49,000 bpd on the High Plains pipeline and 22,000 bpd on trucks represent 84% and 96% of pipe and truck volumes, respectively. In terms of volume growth, pipeline throughput is expected to increase 14% (from 2010 average to LTM 1Q12) to 58,000 bpd. Trucking volumes are expected to remain relatively flat. Importantly, High Plains pipeline and trucking fees have inflation protection. Pipeline tariffs are adjusted annually by the FERC PPI+2.65% inflation escalator (which will total 7% starting July 1) and the trucking rates are adjusted by the CPI.

Figure 12: High plains system asset map with potential interconnects



Source: Company reports

Terminalling/Transportation/Storage

The segment accounts for approximately 47% of our estimate for TLLP's 2011 EBITDA. Assets include eight refined products terminals in the midwest and western US, five short-haul Utah intrastate pipelines and a crude oil/refined products storage facility. The eight RP terminals have truck and barge delivery capacity of 229,000 bpd. The terminals primarily distribute production from TSO's refineries in Los Angeles and Martinez, CA; Kenai, AK; Mandan, ND; Salt Lake City, UT; and Anacortes, WA.

In addition, TLLP owns and operates pipes and storage that exclusively serve TSO's Salt Lake City refinery. TLLP's Salt Lake City pipe assets include including three short-haul crude oil supply pipelines and two short-haul refined product delivery pipelines connected to third-party interstate pipelines. The Salt Lake City terminal has 878,000 barrels of crude/refined products capacity.

Segment revenue mix is 75% terminals, 13% transportation, and 12% storage. Approximately 87% of segment revenue is derived from contracted minimum volume commitments with the parent. TSO's required minimum volumes represent 86%/80%/100% of terminal/ transportation/storage revenues, respectively. Terminalling volumes are expected to increase 1.1% (from 2010 average to LTM 1Q12) to 115,200 bpd, while transportation volumes are expected to increase 8.5% to 65,800 bpd. Storage volume at the Salt Lake City terminal will remain at 878,000 barrels. Similar to the crude oil gathering segment, terminalling, storage and transportation fees have inflation protection, via CPI adjustment.

Overview of General Partner

Tesoro Corporation (TSO) is the general partner of TLLP. TSO is a leading independent refiner in the U.S. with 665,000 bpd of refining capacity at seven refineries. Geographic footprint is primarily western US. Its seven refineries are located in AK, CA(2), HI, ND, UT and WA. In addition, TSO's retail segment is comprised of 880 branded retail stations under the Tesoro®, Shell®, USA GasolineTM and Mirastar® brands.

For views on TSO, we defer to our equity and fixed income research analysts covering the name. Barclays Capital Integrated Oil and Independent Refining equity analyst Paul Cheng's view on TSO is constructive. According to the 5/6/11 note titled "Solid 1Q11, Underlying Earnings Power Has Been Improving Over the Last Couple Years," Cheng states "in the near term, we remain cautious on the refiners and think that US refiners' profit margins could be weak in the coming months as light/heavy differentials and the WTI/Brent spread deteriorate while the product crack could remain relatively sluggish. However, we think the California refining market's medium to longer term outlook remains bright given its high barriers of entry due to its strict product environmental standard and the lack of pipeline capacity to effectively import product from the Gulf Coast or other U.S. markets from a cost perspective. We are also impressed by the company's underlying improvement in its margin capture rate over the last couple years. In addition, we think TSO has more potential room for efficiency improvement compared to its peers due to its relative weak performance in the past."

From a credit perspective, Barclays Capital High Yield Energy fixed income analyst Gary Stromberg has a Market Weight recommendation on TSO's bonds. According to Stromberg's 5/5/11 note "Tesoro (TSO) 1Q11 Credit Review," recent earnings were a "positive credit release, in our view. Quarterly EBITDA was above our expectations on higher refinery utilization, strong product crack spreads and favorable differentials. Subsequent to quarter-end, the company received ~$330mn in net proceeds from the Tesoro Logistics IPO, and redeemed the $150mn of outstanding junior subordinated notes due 2012. Pro forma these transactions, we estimate net leverage to decline to 1.0x, from 1.3x at quarter-end." A quick look at TSO's bonds indicates stability as the 6.6% senior notes due 2015 are trading at 103 vs. 92 on 6/3/10. Net/net, we view TSO as a stable customer of TLLP and posing little counterparty risk.

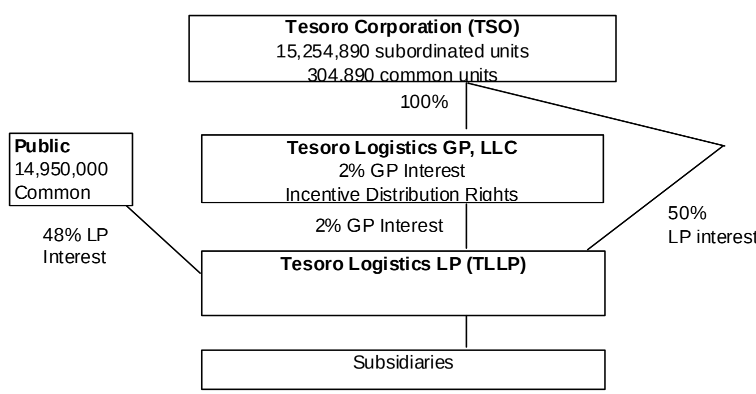
Figure 13: TSO Refineries

Refinery	Location	Capacity (bpd)
Golden Eagle	Martinez, CA	166,000
Anacortes	Anacortes, WA	120,000
Los Angeles	Los Angeles, CA	97,000
Kapolei	Kapolei, HI	93,500
Kenai	Kenai, AK	72,000
Mandan	Mandan, ND	58,000
Salt Lake City	Salt Lake City, UT	58,000
Total		**664,500**

Source: Company filings

TSO has a large ownership stake in TLLP. In addition to its 2% GP stake and incentive distribution rights, TSO owns a 50% LP interest comprised of 15.3MM subordinated and 0.3MM common units. The public owns 14.95MM units, representing a 48% LP interest.

Figure 14: Ownership Structure



Source: Company filings

Figure 16: Incentive Distribution Rights

Level	Quarterly Distribution	Annual Distribution	Allocation GP	Allocation LP
MQD	$0.3375	$1.35	2%	98%
Tier 1	up to $0.388125	up to $1.5525	2%	98%
Tier 2	up to $0.421875	up to $1.6875	15%	85%
Tier 3	up to $0.50625	up to $2.025	25%	75%
Tier 4	above $0.50625	above $2.025	50%	50%

Source: Company filings

TLLP has a standard general partner incentive distribution rights (IDR) structure of 2/15/25/50%. Currently, the Partnership is IN the 2% GP split, which results in a low adjusted cost of equity capital of approximately 5.55% (as of 6/3/11 close), which is favorable for financing future expansion projects. Based on our distribution growth estimates, which includes an assumption of $375MM in acquisitions in total through 2015, we estimate TLLP will enter the 50% splits in late 2015.

Risks

Customer concentration

Parent TSO comprises approximately 95% of TLLP's revenues. However, young partnerships generally have a limited customer mix. In our view, this is not a significant problem, given TSO is a stable customer (S&P credit rating of BB+ with stable outlook). Over time, we expect TLLP to increase third party volumes on its crude oil gathering and terminalling businesses through organic expansions, acquisitions, and increased capacity utilization.

Limited track record as MLP

While its assets were previously housed in TSO, a C-corp independent refiner, TLLP has a limited operating track record as a public MLP, with an IPO in April 20, 2011.

Taxes

Removal of MLP tax-advantaged status would negatively impact TLLP growth prospects. We expect MLP tax status to remain unchanged. In fact, the definition for MLP qualifying income was expanded in 2008 for renewable fuels. Nevertheless, the federal government is seeking to review the tax code and there is potential (or at least headline risk) for pass-through entity tax status to change.

Interest rates

TLLP has interest rate exposure from its revolving credit facility. A 100 bps increase (annualized) in interest rates would increase TLLP interest expense by $0.5MM or 1% of 2011e distributable cash flow. In addition, MLP valuations could be impacted by rising interest rates similar to bonds. However, unlike bonds, MLP distribution growth somewhat offsets higher interest rates.

Equity capital markets

TLLP's ability to grow distributions relies on access to external capital. We assume the Partnership retains approximately 10% of free cash flow, which means TLLP will finance the majority of future expansion capital expenditures with debt and equity capital. As such, a higher cost of capital could likely lower TLLP's distribution growth rate.

Refined product demand

While having minimal direct commodity price exposure, TLLP does have indirect exposure as high commodity prices would likely reduce refined product demand. Other potential sources of lower demand include weak economic conditions, competition from renewable substitutes and adverse weather conditions.

Crude oil production

Given the High Plains system is a key growth driver for TLLP, the Partnership has exposure to crude oil production in the Bakken. Lower-than-expected Bakken production growth could impact TLLP's transportation expansion plans in the region.

Refinery maintenance

Unplanned refinery downtime could negatively impact TSO's excess volumes, beyond the contracted minimum levels, on TLLP's system.

Acquisitions

There is a risk that future TLLP acquisitions fail to meet accretion expectations due to integration or valuation risks.

Regulatory and environmental

More stringent environmental regulations could increase TLLP operating costs and reduce growth prospects if higher costs were not able to be passed along to customers.

Management Team

TLLP has an experienced management team, averaging 27 years of experience. In addition, TLLP recently added two independent board members. On 5/24/11, Tom O'Connor and Mary Morgan joined TSO's board as independent directors. The addition increases TSO's board from five to seven members and independent directors from one to three. A summary of TLLP management and board members follows.

Gregory Goff, Chief Executive Officer, Chairman of the board of directors

Goff joined Tesoro Corporation in May 2010 as CEO and President. Prior to joining Tesoro, Goff served various roles during a 28-year career at ConocoPhillips, including Senior Vice President, Commercial since 2008, President of specialty businesses and business development from 2006 to 2008, President of ConocoPhillips U.S. Lower 48 and Latin America exploration and production business from 2004 to 2006, President of ConocoPhillips European and Asia Pacific downstream operations from 2002 to 2004, Chairman and Managing Director of Conoco Limited, a UK-based refining and marketing affiliate, from 2000 to 2002, director and CEO of Conoco JET Nordic from 1998 to 2000. Previously, Goff served on the board of directors of Chevron Phillips Chemical Company.

Phillip Anderson, President, board of directors

Anderson has served as Vice President, Strategy for Tesoro since April 2010. Prior to his current role with Tesoro, he served as Vice President, Financial Optimization & Analytics beginning in June 2008 and Vice President, Treasurer beginning in June 2007. Anderson joined the company in December 1998 as Senior Financial Analyst and worked in a variety of strategic and financial roles. Anderson began his career in 1991 at Ford Motor Company and worked in a variety of financial roles at that company.

Scott Spendlove, Chief Financial Officer, board of directors

Spendlove has served as CFO for Tesoro Corporation since May 2010. Prior to his current role with Tesoro, he served in risk management, controller, treasury and strategic planning roles. Prior to joining Tesoro in 2002, Spendlove served as Vice President, Corporate Planning and Investor Relations for Ultramar Diamond Shamrock Corporation.

Charles Parrish, Vice President, General Counsel, board of directors

Parrish leads Tesoro's legal department and contract administration function and government affairs group, as well as the business ethics and compliance office. Parrish joined Tesoro in 1994 and has since served in numerous roles in the legal department. Parrish provides counsel to Tesoro's management and board of directors on corporate governance issues. Before joining Tesoro, Parrish worked in private practice with law firms in Houston and San Antonio, primarily representing commercial lenders in loan transactions, workouts and real estate matters.

Ralph Grimmer, Vice President, Operations

Grimmer is responsible for pipelines and refined product terminals, crude oil and refined products trucking and all rail operations. Grimmer has served as Vice President, Logistics for Tesoro since November 2010. Previously he served in strategy, M&A and logistics roles at Tesoro. Prior to joining Tesoro in 2006, Grimmer served in a variety of consulting, marketing and logistics positions, including Baker & O'Brien, Inc. and Motiva Enterprises LLC.

Raymond Bromark, board of directors (independent director)

Bromark is a retired Partner of PricewaterhouseCoopers, LLP. He joined PwC in 1967 and became a Partner in 1980. He was Partner and Head of the Professional, Technical, Risk and Quality Group of PwC from 2000 to 2006, a Global Audit Partner from 1994 to 2000 and Deputy Vice Chairman, Auditing and Business Advisory Services from 1990 to 1994. Bromark has been a director of CA Technologies, a provider of IT management software and solutions, since 2007 and chairs its audit committee.

Tom O’Connor, board of directors (independent director)

O'Connor currently serves as chairman of the board, president and CEO of DCP Midstream, LLC and chairman of DCP Midstream Partners. O’Connor previously served at Duke Energy.

Mary Morgan, board of directors (independent director)

Morgan is the principal of Morgan Hamilton Group, a liquid petroleum pipeline and storage advisory practice. Morgan previously serviced at NuStar Energy, Valero, L.P. and Kinder Morgan Energy Partners.

Financial Model

Figure 17: TLLP Model ($ in MM, except per unit amounts)

	2011e	2012e	2013e	2014e	2015e
Crude oil gathering revenues	51.8	54.4	58.2	62.3	66.6
Terminalling, transportation, storage revenues	45.1	47.3	49.2	51.6	54.0
Total revenues	96.9	101.7	107.4	113.8	120.6
Operating expenses	(37.3)	(39.3)	(41.9)	(44.4)	(47.0)
Depreciation expense	(8.9)	(10.2)	(12.2)	(14.2)	(16.2)
General & administrative expenses	(7.3)	(6.7)	(7.1)	(7.5)	(8.0)
Other	0.0	0.0	0.0	0.0	0.0
Expansion capex contribution	0.0	5.9	19.7	32.2	47.2
Operating income	43.4	51.4	65.9	79.9	96.6
Interest expense	(2.3)	(2.6)	(6.0)	(8.1)	(12.3)
Other	0.0	0.0	0.0	0.0	0.0
Tax expense		0.0	0.0	0.0	0.0
Net income	41.1	48.8	59.9	71.8	84.3
Net income to general partner	(0.8)	(1.4)	(2.3)	(4.7)	(7.2)
Net income to limited partners	40.3	47.4	57.6	67.1	77.1
Units outstanding	30.5	30.5	32.9	35.8	38.8
Net income per LP unit	$1.32	$1.55	$1.75	$1.87	$1.99
Cash distribution per unit (declared)	$0.94	$1.51	$1.66	$1.82	$1.98
Pro forma cash distribution per unit (declared)	$1.35	$1.51	$1.66	$1.82	$1.98
Y/Y growth		11.7%	10.3%	9.5%	8.9%
Crude oil gathering segment					
Crude oil pipeline volumes (000 bpd)	57.1	59.5	60.7	62.5	64.4
Average pipeline revenue per barrel	$1.30	$1.32	$1.40	$1.46	$1.53
Pipeline gathering revenue	27.1	28.8	31.0	33.4	35.9
Trucking volume (000 bpd)	22.7	23.7	24.4	25.1	25.8
Average trucking revenue per barrel	$2.94	$2.96	$3.06	$3.15	$3.25
Trucking revenue	24.3	25.6	27.2	28.9	30.6
Pipeline and trucking revenue	51.4	54.4	58.2	62.3	66.6
Total pipeline and trucking volumes (000 bpd)	79.8	83.2	85.1	87.6	90.3
Average pipeline and trucking tariff	$1.78	$1.79	$1.88	$1.95	$2.02
Terminalling, transportation, storage segment					
Terminal volumes (000 bpd)	116.5	116.4	117.6	118.8	120.0
Average terminal revenue per barrel	$0.81	$0.83	$0.85	$0.88	$0.92
Terminal revenue	34.3	35.3	36.5	38.3	40.3

Short-haul pipeline volumes (000 bpd)	64.3	69.5	72.0	72.7	73.4
Average terminal revenue per barrel	$0.19	$0.26	$0.27	$0.28	$0.29
Short-haul pipeline revenue	4.5	6.6	7.0	7.4	7.8
Storage capacity reserved (000 barrels)	878	878	886	886	886
Average storage revenue per barrel per month	$0.51	$0.52	$0.53	$0.55	$0.57
Storage revenue	5.3	5.5	5.7	5.8	6.0
Terminalling, transportation, storage revenue	44.1	47.3	49.2	51.6	54.0
EBITDA	52.3	61.6	78.1	94.1	112.8
Interest expense	(2.2)	(2.2)	(6.0)	(8.1)	(12.3)
Maintenance capex	(4.4)	(5.3)	(6.7)	(7.9)	(9.2)
Other	0.0	0.0	0.0	0.0	0.0
Distributable cash flow	45.7	54.1	65.4	78.1	91.3
General partner distribution	(0.7)	(1.0)	(1.7)	(3.6)	(6.1)
Distributable cash flow to limited partners	45.3	53.1	63.7	74.5	85.2
DCF per unit	$1.48	$1.74	$1.94	$2.08	$2.20
Distribution coverage ratio	1.10x	1.15x	1.17x	1.14x	1.11x
Additions To PP&E	(10.7)	(20.2)	(21.7)	(22.9)	(29.2)
Acquisitions	0.0	0.0	(100.0)	(125.0)	(150.0)
Net PP&E	137.8	147.8	257.3	391.0	554.0
Long Term Debt	54.0	59.0	114.0	154.0	224.0
Debt/EBITDA	1.0x	1.0x	1.5x	1.6x	2.0x

Source: Barclays Capital estimates, company filings

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Primary Stocks (Ticker, Date, Price)

Tesoro Logistics LP (TLLP, 07-Jun-2011, USD 24.42), 1-Overweight/2-Neutral

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Calumet Specialty Products Partners, L.P. (CLMT)	Chesapeake Midstream Partners LP (CHKM)	Constellation Energy Partners LLC (CEP)
Copano Energy LLC (CPNO)	Crosstex Energy LP (XTEX)	DCP Midstream Partners LP (DPM)
Duncan Energy Partners LP (DEP)	Eagle Rock Energy Partners LP (EROC)	El Paso Pipeline Partners, L.P. (EPB)
Enbridge Energy Partners (EEP)	Encore Energy Partners LP (ENP)	Energy Transfer Equity LP (ETE)
Energy Transfer Partners LP (ETP)	Enterprise Products Prtns LP (EPD)	Exterran Partners LP (EXLP)
Ferrellgas Partners (FGP)	Global Partners LP (GLP)	Holly Energy Partners LP (HEP)
Inergy L.P. (NRGY)	Kinder Morgan Energy Prtnrs LP (KMP)	Linn Energy LLC (LINE)
Magellan Midstream Partners, LP (MMP)	Markwest Energy Partners, LP (MWE)	Niska Gas Storage Partners LLC (NKA)

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NuStar Energy LP (NS)	ONEOK Partners LP (OKS)	PAA Natural Gas Storage LP (PNG)
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Suburban Propane Partners (SPH)	Sunoco Logistics Partners L.P. (SXL)	Targa Resources Partners LP (NGLS)
TC Pipelines, LP (TCLP)	Teekay Offshore Partners LP (TOO)	Tesoro Logistics LP (TLLP)
Vanguard Natural Resources (VNR)	Western Gas Partners LP (WES)	Williams Partners LP (WPZ)

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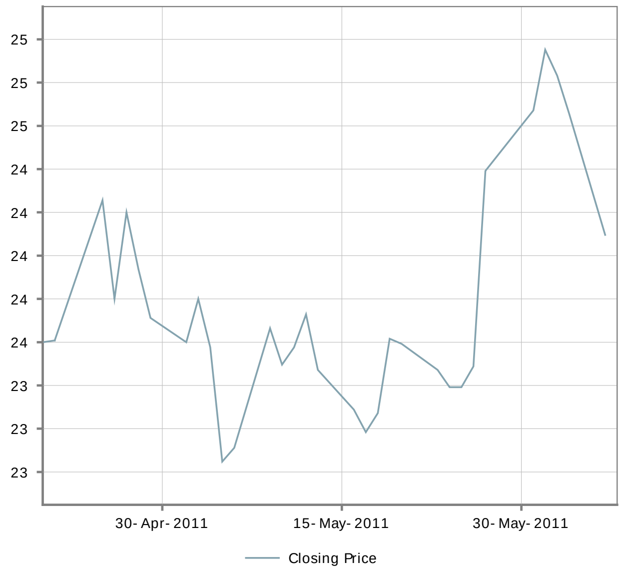
Tesoro Logistics LP (TLLP)

USD 24.42 (07-Jun-2011)

Stock Rating	Sector View
1-OVERWEIGHT	**2-NEUTRAL**

Rating and Price Target Chart - USD (as of 07-Jun-2011) **Currency=USD**



Date	Closing Price	Rating	Price Target

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Valuation Methodology: Our $28 price target is based on a 12-month distribution run rate of $1.48 and a 5.3% target yield.

Risks which May Impede the Achievement of the Price Target: Customer concentration, rising interest rates, acquisition integration risk, pipeline tariff rates subject to regulatory review, lower refined product demand, lower crude oil production in the Bakken Shale, more stringent energy regulations, construction cost overruns, change in MLP tax status.

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