

May 10, 2011

Stock Rating:
OUTPERFORM

12-18 mo. Price Target \$30.00
TLLP - NASDAQ \$23.58

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$25.09-\$21.00
Shares Outstanding 15.3M
Float 12.8M
Market Capitalization \$719.4M
Avg. Daily Trading Volume NA
Dividend/Div Yield \$1.35/5.73%
Fiscal Year Ends Dec
Book Value \$4.22
2011E ROE NA
LT Debt \$50.0M
Preferred NA
Common Equity \$86M
Convertible Available No

DCFPU	Q1	Q2	Q3	Q4	Year	Mult.
2011E	--	0.33	0.37	0.37	1.07	22.0x
2012E	0.37	0.39	0.42	0.44	1.70	13.9x
2013E	--	--	--	--	1.86	12.7x

EBITDA	Q1	Q2	Q3	Q4	Year	Mult.
2011E	--	12	13	14	39	NM
2012E	14	14	15	16	58	NM
2013E	--	--	--	--	64	NM

Distribution	Q1	Q2	Q3	Q4	Year	Yield
2011E	--	0.266	0.338	0.345	0.949	4.0%
2012E	0.355	0.365	0.375	0.385	1.480	6.3%
2013E	--	--	--	--	1.640	7.0%

ENERGY/MASTER LIMITED PARTNERSHIPS

Tesoro Logistics Partners

Initiating Coverage on MLP Top Pick: Bakken Exposure Drives Robust Growth

SUMMARY

We initiate coverage of TLLP with an Outperform rating and \$30 PT. It is currently our MLP top pick. We believe TLLP represents the first opportunity in years to own a 100% fee-based (low-risk) pipeline MLP with significant dropdown and organic growth potential early in its life cycle. We forecast double-digit distribution growth CAGR for the next several years as TLLP expands organically and completes acquisitions. Assets include a large crude oil gathering system in North Dakota and Montana that provides exposure to Bakken formation growth. We believe the Bakken is in the nascent stages of development and that TLLP provides one of the most concentrated ways to invest in Bakken development.

KEY POINTS

- **Attractive asset base focused on the Bakken.** Roughly 55% of 2011E cash flow is generated by assets in the Williston Basin. The Bakken is economic with oil prices as low as \$50/bbl and is in the early stages of development. We believe TLLP is one of the most concentrated ways to gain Bakken exposure.
- **Promising organic growth prospects.** \$17.2M of near-term organic growth projects are expected to contribute over \$10M of incremental EBITDA. Longer term, we expect TLLP to have ample opportunity to expand its Bakken infrastructure as drilling accelerates in the formation.
- **Dropdown acquisition growth from TSO.** TSO has an est. \$600-800M worth of terminal and pipeline (fee-based) assets on which TLLP has rights of first refusal. We calculate that each \$100M of acquisitions will be ~6% accretive to DCFPU. We would want to own the units ahead of any dropdowns.
- **Low financial leverage.** With a debt/EBITDA ratio in the mid-1s, TLLP should have plenty of dry powder to complete accretive acquisitions without issuing additional equity. This creates opportunity for especially attractive accretion from the first dropdown acquisitions completed by the company, without an equity issuance overhang.
- **Attractive total return prospects make TLLP our top MLP pick.** We est. ~30% 12-18 month total return potential to our \$30 PT, which makes TLLP our top pick. We believe that TLLP provides investors a low-risk, high-return investment. We recommend purchase while it is still early in its life cycle.

Stock Price Performance

Company Description

TLLP is a fee-based, growth-oriented MLP formed by Tesoro to own, operate, develop and acquire crude oil and refined products logistics assets. Assets consist of a crude oil gathering system in the Bakken Shale/Williston Basin, eight refined products terminals in the Midwest and West, and a crude oil and refined products storage facility and five related short-haul pipelines in Utah.

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Investment Considerations

Exposure to Highly Desirable Bakken Infrastructure. TLLP's High Plains system connects the Bakken/Williston oil-producing area to Tesoro's Mandan refinery—the closest refinery to the Bakken oil fields. We believe that Mandan is one of the lowest-cost options for Williston basin producers to get crude oil to market. While High Plains has historically delivered volumes exclusively to the refinery, the intention now is to open it up to third parties via connections to five different transportation pipelines. This should result in higher utilization of the gathering system and allow for increased gathering activity as drilling grows. We believe TLLP (through the High Plains system) provides unitholders with the opportunity to invest in a scalable, profitable crude gathering system in one of the fastest growing oil plays in the US.

Attractive Organic Growth Prospects. The purpose of separating TLLP from TSO was to create an independent entity that exists to maximize the value of TSO's midstream assets. The asset base was historically utilized exclusively by its parent company. We believe there is ample opportunity to increase utilization by allowing third parties access to the assets. In addition, the company has already announced several small, highly accretive growth projects designed to provide incremental services to the expanded customer base. We anticipate these accretive projects to continue as TLLP establishes itself as a new, independent entity.

Ample Dropdown Growth Available from Tesoro. TLLP's relationship with Tesoro Corp. (TSO) should provide opportunities for dropdown asset acquisitions. TLLP has rights of first refusal on ten TSO assets should the parent decide to sell, transfer or dispose of the assets. We estimate the potential dollar amount of growth projects from TSO to be approximately \$600-800M. We believe dropdowns from the parent will provide the opportunity to grow TLLP substantially over time. We estimate that each \$100M of acquisitions completed by TLLP will result in approximately 6% DCFPU accretion (assuming a 10x EBITDA multiple). As a result of the ownership of the general partner, TSO has the incentive to promote growth at TLLP. TSO will receive an increasing percentage of incremental distributions paid by TLLP as the MLP grows. Therefore, we feel TLLP will benefit greatly from dropdown growth.

Low Financial Leverage Provides Flexibility to Acquire. TLLP has relatively low financial leverage with an estimated debt/EBITDA ratio of 1.3x. Total debt outstanding post-IPO is \$50M and is being carried on the company's \$150M revolving credit facility. This financial flexibility offers TLLP the opportunity to acquire assets and grow distributable cash flow. We estimate that the first \$200M of acquisitions can be completed without issuing additional equity. That would leave the debt/EBITDA ratio at approximately 3.5x.

100% Fee-Based Cash Flows Backed by Long-Term Contracts. TLLP generates 100% fee-based cash flows. The majority are backed by 10-year contracts with minimum volume commitments. These contracts effectively remove cyclicality of the refining business from TLLP's cash flows. We believe that the long-term fee-based nature of TLLP's business model provides the stability and transparency necessary to pay consistent distributions.

Tariff Escalation: Interstate crude oil pipelines that are not located near competing pipelines receive a FERC-regulated "indexed" tariff to mitigate market power. That tariff increases or decreases based on the Producer Price Index (PPI; finished goods) plus an escalator derived by the FERC (Federal Energy Regulatory Commission). For the five years ended June 30, 2011, the escalator is +1.3%. For example, in 2010, the projected PPI is 4.28%. Add the 1.3% escalator and we get 5.58%. Indexed tariffs increase by 5.58% starting July 1, 2010. In addition, the FERC has recently finished its new five-year review of the escalator and will implement PPI + 2.65% for the five years ended June 30,

2016. Even in an environment of slow economic growth and inflation (assume the PPI increases 2% in 2011), we will have mid-single-digit annual tariff increases on the High Plains system.

Downside Protection from Unit Subordination: TLLP's subordination structure provides some downside protection to common unitholders in the event that the company is unable to pay its minimum quarterly distribution (MQD). It also provides management an incentive to achieve stated financial goals. Approximately 49% of TLLP's total units outstanding are subordinated. The 15.3M subordinated units are owned by TSO. In the case that TLLP is unable to pay the MQD of \$0.3375 per quarter on all outstanding units, common units have the right to receive distributions of \$0.3375 plus any arrearages before any payments may be made on the subordinated units. In addition, the subordination period will end (and the subordinated units will convert to common units), when a certain set of financial goals is achieved related to distribution payment and growth.

Investment Risks

Tesoro Credit and Concentration Risk. TLLP's current business model is heavily tied to Tesoro. Historically, TSO has been the only customer for TLLP's assets and it will continue to contribute the majority of its cash flows into the future. We are confident that TLLP will expand its customer base to include third parties over time, but TSO will always play an important role in TLLP's success. TLLP enjoys minimum volume commitments on the 10-year contracts it has with TSO which insulate it from the ups and downs of the refining business cycle. However, if TSO becomes insolvent for any reason, TLLP will be exposed.

Refined Product Demand. The recent rise in crude oil prices has resulted in high profit margins for producers in the Williston basin. However, it has also resulted in higher gasoline and other refined product prices. Should crude oil and refined product prices continue to rise, this may lead to a demand response. In other words, it may erode refined product demand. TLLP's infrastructure was built to support Tesoro's refineries. Should demand for refined products decline, utilization of TLLP's assets may fall. TLLP's long-term contracts with Tesoro serve to insulate the MLP's cash flow from the refining cycle, but are contingent upon TSO refineries not being shuttered for 12 consecutive months.

FERC Regulatory Risk: A large portion of TLLP's cash flow is regulated by the FERC. For the most part, the FERC is a benign regulator that allows an attractive return, in our view. However, there is always the risk that comes along with a powerful regulatory body being responsible for ensuring "just and reasonable" rates.

Interest Rates: The entire MLP group is vulnerable to potential increases in interest rates in two ways. First, MLPs rely on being able to secure capital at attractive rates in order to grow. Since MLPs typically pay out the vast majority of their cash flow, every new large organic growth project or acquisition requires capital raising in the form of both debt and equity to maintain target leverage ratios. Therefore, if interest rates rise, an MLP's cost of debt rises, decreasing cash flow. Second, as interest rates rise, competing yield-based investments (such as municipal bonds) may depreciate in value causing yields to rise. This may make alternatives to MLPs relatively more attractive and result in lower valuations for MLPs.

Financial Overview

Financial Outlook

Exhibit 1. After-tax Yield Comparison

	2011Q2E	2011Q3E	2011Q4E	2011YE	2012YE	2013YE
DCF / LP unit	\$0.33	\$0.37	\$0.37	\$1.07	\$1.70	\$1.86
<i>Annual DCF/LP growth</i>					58.4%	9.8%
LP distribution / Unit	\$0.2663	\$0.3375	\$0.3450	\$0.9488	\$1.4800	\$1.6400
<i>Annual Distribution Growth</i>				N/A	56.0%	10.8%
Coverage	1.2x	1.1x	1.1x	1.1x	1.1x	1.1x

Source: Company reports, Oppenheimer & Co. Inc.

Our distributable cash flow per unit estimates for FY11-FY13 are \$1.07, \$1.70 and \$1.86, which represents significant growth above the IPO-shortened 2011. We estimate the distribution per unit will be \$0.95, \$1.48 and \$1.64 over the same time period. We anticipate the distribution growth to accelerate into 2013 as TLLP is able to complete its growth projects. These numbers combine for annual coverage ratios ranging from 1.1-1.2x. In our view, this coverage provides enough cushion to absorb any unforeseen bumps in the road given TLLP's low-risk business model.

Growth Drivers

Bakken Production Growth

Bakken oil production growth leads to increasing transportation volumes on the High Plains system. We believe Bakken production will increase dramatically over the next five years (the PIRA Energy group forecasts nearly 40% crude production from 2012 to 2014). Enbridge Energy Partners (EEP) forecasts production for 600,000 bpd in 2014, above the current 350,000 bpd. There are currently 180 rigs drilling in the Bakken/Williston (as of March 2011).

Accretive Organic Growth

TLLP has announced organic growth projects on the High Plains system in conjunction with Tesoro's Mandan refinery expansion that we anticipate to become accretive to earnings beginning in 2Q12 and will boost High Plains volumes by nearly 10,000bpd. TLLP has also announced organic growth capital spending of approximately \$6.8M relating to the expansion of services and capacity in the Terminalling, Transportation and Storage segment that we estimate will come online later in 2011.

We anticipate TLLP's early growth projects to be highly accretive. Management forecasts these announced growth projects to have EBITDA multiples of 1.0-2.0x, which we believe will significantly add to DCFPU. We also believe there are numerous existing bolt-on expansion projects available (such as increasing capacity on the High Plains system to interconnect with other pipelines) that will be highly accretive.

Anticipated Dropdown Acquisitions from TSO

Tesoro has granted TLLP the right of first refusal for 10 assets that we believe will eventually be sold to the partnership. We currently forecast a \$100M dropdown acquisition in both 2012 and 2013 and believe the acquisitions will provide an accretive avenue for growth for years to come. We project that each \$100M acquisition will generate approximately 6% accretion to DCFPU assuming the deals are done at 10x EBITDA, with potential upside if TLLP were able to increase the total percentage of capacity utilized. We currently estimate the total amount of assets available to be \$600-800M, and believe that TLLP will utilize this strategy to achieve outsized distribution growth.

Exhibit 2. Right of First Refusal Asset List

Asset	Location	Capacity	2010 Throughput
Golden Eagle Refined Products Terminal	Martinez, CA	38,000 BPD	14,100 BPD
Golden Eagle Marine Terminal	Martinez, CA	145,000 BPD	49,800 BPD
Golden Eagle Wharf Facility	Martinez, CA	50,000 BPD	29,900 BPD
Tesoro Alaska Pipeline	Nikiski, AK	48,000 BPD	36,000 BPD
Nikiski Dock and Storage Facility	Nikiski, AK	930,000 Bbls	82,300 BPD
Nikiski Refined Products Terminal	Nikiski, AK	211,000 Bbls	2,600 BPD
Los Angeles Crude Oil and Refined Products Pipeline System	Los Angeles, CA		42,200 BPD
Anacortes Refined Products Terminal	Anacortes, WA		1,700 BPD
Anacortes Marine Terminal and Storage Facility	Anacortes, WA	1,400,000 Bbls	30,800 BPD
Long Beach Marine Terminal	Long Beach, CA		98,800 BPD

Source: Company reports, Oppenheimer & Co. Inc.

Balance Sheet, Leverage and Liquidity: Poised for Growth

TLLP has a solid balance sheet with a low level of financial leverage, and plenty of liquidity. Total debt as of the IPO was \$50M and is carried on the revolving credit facility. Should interest rates rise, TLLP's longer-term funding may be impacted as they have not locked into fixed rate, long-term debt. Management has suggested that as growth continues, long-term debt will be used to maintain flexibility in the credit facility.

Debt/EBITDA (total debt as of the IPO divided by 2011 expected EBITDA) stands at 1.3x, with EBITDA/interest expense (2011 expected EBITDA/2011 expected interest expense) at 18.5x. Both metrics are substantially stronger than most MLP peers under Oppenheimer & Co. Inc. coverage.

TLLP has approximately \$100M available under its \$150M credit facility. The relatively clean start should provide TLLP plenty of flexibility to operate its business comfortably. The credit facility contains a debt/EBITDA covenant of 4.50x, and an EBITDA/interest expense covenant of 3.0x leaving the company plenty of margin of error given the low risk profile of the underlying business. The credit facility also includes an accordion feature that allows expansion up to an aggregate of \$300M, subject to receiving increased commitments from the lenders.

Valuation

Our price target of \$30 per unit is derived using our distribution discount model (DDM). The assumptions underlying this price target are stage one (years 1 & 2) growth of 10%, stage two (years 3- 5) growth of 8%, a terminal growth rate of 2% and a discount rate of 8.0%. The terminal distribution is projected to be \$2.06 and is achieved in 2015. The price target implies a total return of 30% over the next 12-18 months (including the anticipated 2011-2012 distribution yield). (Note that our return calculations exclude applicable costs, including commission and interest.)

Furthermore, we believe that the current after-tax yield (using an annualized minimum quarterly distribution) compares favorably to other yield-based alternatives as seen in the chart below.

Exhibit 3. After-tax Yield Comparison

	Tesoro Logistics Partners, L.P. (TLLP)	Bloomberg Active HY US Corp. Bond Index	iShares S&P National AMT Fr Muni Bond Fund ETF (MUB)	Bloomberg Active Inv. Grade U.S. Corp. Bond Index (YTM)	SNL Gas Utility Index	SNL US REIT Index
Pre-Tax Yield	5.92%	7.77%	3.58%	4.62%	2.80%	3.53%
Return of Capital (not taxable) *	4.74%	N/A	N/A	N/A	N/A	N/A
Return on Capital (taxable) *	1.18%	N/A	N/A	N/A	N/A	N/A
Qualified Dividend Tax	N/A	N/A	N/A	N/A	15.0%	N/A
Dividend Tax	N/A	N/A	N/A	N/A	N/A	28.0%
Income Tax	28.0%	28.0%	N/A	28.0%	N/A	N/A
After-Tax Yield	5.59%	5.59%	3.58%	3.33%	2.38%	2.54%

* Assumes 80% of net income for tax purposes is offset by distributions paid.

Taxes are deferred until sale. They are not avoided all together. Please see our August 24, 2010 Industry Initiation Report for more information on tax issues.

Yield data priced as of May 05, 2011 and uses an annualized distribution based on the most recent announcement.

Source: SNL; Bloomberg; Oppenheimer & Co, Inc.

We also believe that the MLP business model offers some hedge towards rising interest rates unlike the fixed income comparisons in Exhibit 3. While rising rates do pose a risk to valuation on income producing securities, we feel that these fears are overstated. We believe that normally, rising interest rates signal economic strength or rising inflation. In a strengthening economy, there is a greater demand for the energy products that MLPs handle. This in turn boosts throughput volumes and thus, MLP revenue. During periods of inflation, crude oil and natural gas prices tend to rise. We feel that this would lead to more drilling, production and need for the infrastructure that MLPs provide. Additionally, some MLP business activities contain inflation-linked escalators. In our opinion, such gains would help boost the distributions. See the MLP Industry report released on August 24, 2010 for more information.

Company Overview

Business Description

Tesoro Logistics is a fee-based, growth-oriented Delaware limited partnership recently formed by Tesoro to own, operate, develop and acquire crude oil and refined products logistics assets. TLLP's logistics assets are integral to the success of Tesoro's refining and marketing operations and are used to gather, transport and store crude oil and to distribute, transport and store refined products. The initial assets consist of a crude oil gathering system in the Bakken Shale/Williston Basin area of North Dakota and Montana, eight refined products terminals in the Midwestern and Western United States and a crude oil and refined products storage facility and five related short-haul pipelines in Utah.

Exhibit 4. TLLP Asset Map

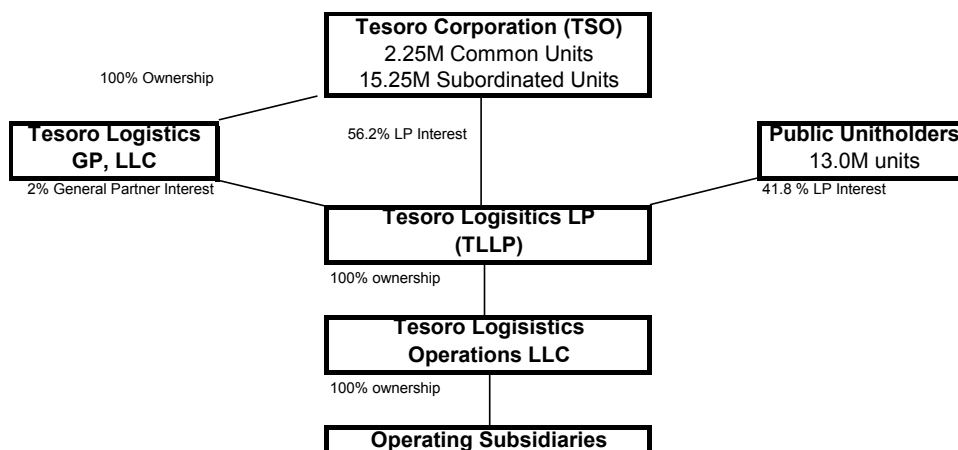


Source: Tesoro Logistics company filings.

Ownership, Corporate Structure and IDRs

TLLP is 58% owned by TSO and 42% by the public. The 56% LP interest combined with the 2% GP interest (which gives TSO the incentive distribution rights (IDRs)) helps to align the interests of TSO and TLLP. TSO has a strong incentive to grow TLLP's distribution to achieve the "high splits." The high splits are a GP's "happy place" where the general partner receives 50% of all incremental distributions paid. TLLP has an advantage vs. other MLPs without a strong, well-aligned parent company.

Exhibit 5. TLLP Corporate Structure



Source: Tesoro Logistics company filings.

Exhibit 6. IDRs

	Quarterly Distribution	Annual Distribution	GP %	LP %
MQD	\$0.3375	\$1.35	2%	98%
1st Target Distribution	\$0.3881	\$1.55	2%	98%
2nd Target Distribution	\$0.4219	\$1.69	15%	85%
3rd Target Distribution	\$0.5063	\$2.03	25%	75%
Thereafter	\$0.5063	\$2.03	50%	50%

Source: Tesoro Logistics company filings.

Contracts: Fee-based and Long-Term

Overall, TLLP has a low-risk profile from a contract standpoint. In 2010, 100% of TLLP's operating margin was from fee-based businesses. Currently, these businesses are generally backed by 10-year long-term contracts with minimum volume commitments, meaning TLLP will get paid whether the assets are fully utilized or not. Should Tesoro's refineries be down for 12 consecutive months, TSO is granted the option to exit these contracts. We don't believe that to be a significant risk because Tesoro's Mandan refineries is one of the more profitable refineries in the nation (given its location) and the Mandan Bakkan/Williston region generates more than 50% of the revenues.

The following chart displays the average volume commitments.

Exhibit 7. TLLP Contract Structure

	Forecasted 12 Months Ending 03/31/201	Contracted Minimum	Contracted Minimum as a % of Forecast	Contract Length (years)
Crude oil pipeline throughput (bpd)	58,000	49,000	84%	10
Trucking volume (bpd)	22,900	22,000	96%	2
Terminal throughput (bpd)	115,200	100,000	87%	10
Short-haul pipeline throughput (bpd)	65,800	54,000	82%	10
Storage capacity reserved (barrels)	878,000	878,000	100%	10

Source: Tesoro Logistics company filings.

Segment Fundamentals

TLLP operates in two business segments: Crude Oil Gathering and Terminalling, Transportation and Storage.

Crude Oil Gathering

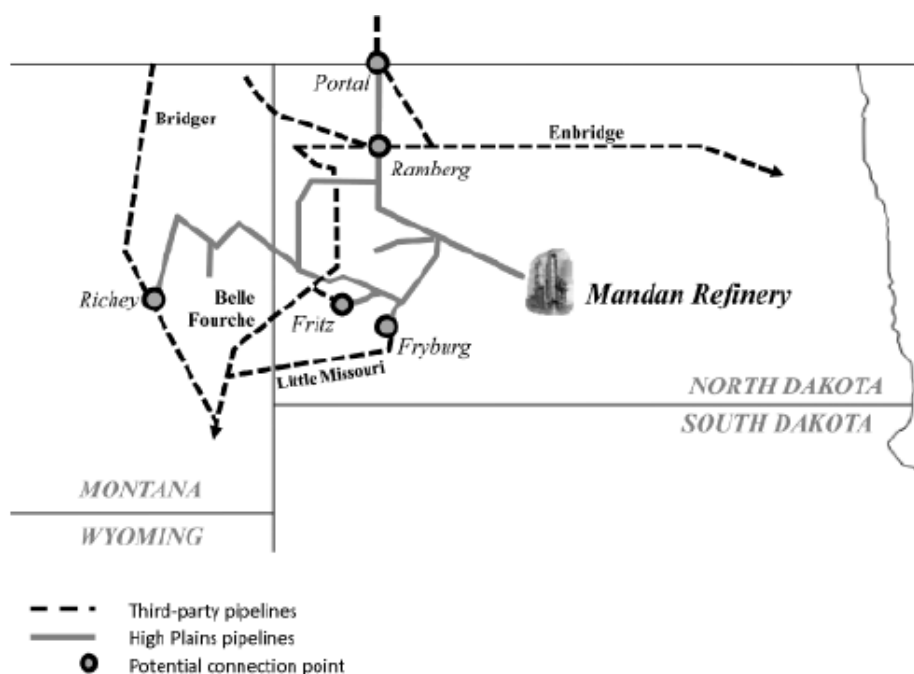
The Crude Oil Gathering segment, which consists of the High Plains system, is located in the Williston Basin, one of the most prolific onshore crude oil basins in the US and includes production from the more commonly known Bakken shale formation.

The High Plains system services a significant portion of the Bakken/Williston formation through its approximately 700 miles of pipeline and storage system and expansive truck fleet. The pipeline has current capacity to transport 70,000 bpd, while the truck fleet can deliver an additional 23,000 bpd. The High Plains system utilizes 24 crude oil storage and breakout tanks with a total combined capacity of 482,000 barrels, 13 proprietary and six third-party truck receipt locations, 44 proprietary and eight third-party pipeline gathering receipt stations (collection points) and 11 relay stations to deliver crude oil to Tesoro's Mandan refinery.

Historically, the Mandan refinery was the only destination for the High Plains system. However, the existing system has five pipeline interconnects. This is where we believe TLLP can unlock further value. TLLP is currently testing High Plains to increase the overall capacity above 70,000 bpd, as the bulk of the system is large enough to handle more capacity (the spur to Mandan is the main bottleneck at 70,000bpd). As production in the Bakken continues to increase, we believe that TLLP will be able to increase overall capacity on the system and serve more clients than just Tesoro's Mandan refinery. Exhibit 8 displays the current interconnect potential for the High Plains pipelines.

We believe the High Plains system is strategically placed and offers a low cost advantage to peers. The location of Tesoro's refinery creates an opportunity for Bakken producers to transport oil to market more quickly than other transportation options. We believe that such an advantage puts the High Plain system in position to grow volumes and creates an opportunity for highly accretive bolt-on growth projects.

Exhibit 8. Pipeline Map and Interconnects



Source: Tesoro Logistics company filings.

Terminalling, Transportation and Storage

The Terminalling, Transportation and Storage segment consists of eight refined products terminals located in California, Utah, Alaska, Washington and North Dakota, a crude oil storage facility, three short-haul crude supply pipelines and two short-haul refined product delivery pipelines. The terminals have an aggregate truck and barge delivery capacity of approximately 229,000 bpd while the crude storage facilities hold a total shell capacity of approximately 878,000 barrels with plans to expand storage capacity in 2011 (see the growth drivers section above).

We believe the Terminalling, Transportation and Storage segment offers safe, fee-based cash flows that are protected by long-term contracts with Tesoro. Currently, TLLP has contractual minimums on 100% of the storage capacity, 82% of the short-haul pipeline throughput and 87% of the terminal throughput (see contracts). We believe that as TLLP opens the assets to third parties, the excess capacity may be absorbed.

Management and Board Profile

Tesoro Logistics Partners, L.P. – Management Profile

Key Officer	Age	Major Experience
Gregory J Goff	54	Chairman of Board and CEO
G. Scott Spendlove	47	VP, CFO and Director
Phillip M. Anderson	45	President and Director

Sources: Company financial statements; Oppenheimer & Co. Inc.

Tesoro Logistics LP; (TLLP) OUTPERFORM											Bernie Colson (816) 932-8022	
Summary Financial Statements											Shawn Radtke (720) 554-1101	
Millions of Dollars Except for Per Unit Amounts												
Fiscal Year Ending December 31,												
Summary Income Statement	2010A	2011Q1E	2011Q2E	2011Q3E	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E	2013E
Crude Oil Gathering	50		9.8	13.0	13.2	36.0	12.9	13.7	14.5	15.1	56.3	62.0
Terminalling, transportation and storage	44		8.8	11.6	11.8	32.2	11.9	12.3	12.8	13.3	50.3	55.1
Total Revenues	93		18.6	24.5	25.1	68.2	24.8	26.0	27.4	28.4	106.6	117.1
Operating expenses												
Operating and maintenance expense	37		5.6	9.5	9.7	24.9	9.7	10.1	10.7	11.1	41.6	45.7
Depreciation expense	8		1.4	2.4	2.4	6.2	2.4	2.5	2.7	2.8	10.4	11.4
General and administrative expense	3		1.0	1.7	1.7	4.4	1.6	1.7	1.8	1.8	6.9	7.3
Total operating expenses	48		8.0	13.6	13.9	35.5	13.7	14.4	15.1	15.7	58.9	64.4
Operating income	45		10.5	10.9	11.2	32.7	11.1	11.6	12.2	12.7	47.7	52.7
Interest Expense	2		0.5	0.7	0.7	2.0	0.8	0.9	2.3	2.3	6.3	14.0
Income before income taxes	42		10.0	10.2	10.4	30.7	10.3	10.8	10.0	10.4	41.4	38.7
Interest Expense	2		0.5	0.7	0.7	2.0	0.8	0.9	2.3	2.3	6.3	14.0
Net income	42		10.0	10.2	10.4	30.7	10.3	10.8	10.0	10.4	41.4	38.7
Less: Allocations to GP	1		0.2	0.2	0.2	0.6	0.2	0.2	0.2	0.2	0.9	0.9
Net Income allocable to LP	42		9.8	10.0	10.2	30.1	10.0	10.5	9.7	10.2	40.5	37.7
Earnings Per LP Unit	1.34		0.32	0.32	0.33	0.97	0.32	0.34	0.31	0.33	1.30	1.21
Distributable Cash Flow Calculation	2010A	2011Q1E	2011Q2E	2011Q3E	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E	2013E
Net income	42		10.0	10.2	10.4	30.7	10.3	10.8	10.0	10.4	41.4	38.7
Depreciation Expense	8		1.4	2.4	2.4	6.2	2.4	2.5	2.7	2.8	10.4	11.4
Interest Expense	2		0.5	0.7	0.7	2.0	0.8	0.9	2.3	2.3	6.3	14.0
EBITDA	53		12.0	13.3	13.6	38.9	13.5	14.2	14.9	15.5	58.1	64.1
Dropdown Addition to EBITDA	0		0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.5	5.0	17.5
Adjusted EBITDA (Reported)	53		12.0	13.3	13.6	38.9	13.5	14.2	17.4	18.0	63.1	81.6
Cash Interest	2		0.5	0.5	0.6	1.6	0.6	0.6	2.5	2.5	6.3	15.3
Cash Taxes	0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maintenance Capex	2		1.0	1.2	1.2	3.4	1.2	1.3	1.5	1.6	5.6	7.3
Other	0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributable Cash Flow	49		10.4	11.6	11.9	33.9	11.7	12.3	13.4	13.8	51.2	59.0
Total DCF / Unit	1.57		0.33	0.37	0.38	1.09	0.38	0.39	0.43	0.44	1.64	1.89
GP distribution	0.00		0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	(0.05)	0.03
DCF / LP unit	1.57		0.33	0.37	0.37	1.07	0.37	0.39	0.42	0.44	1.70	1.86
LP distribution / Unit			0.26625	0.3375	0.3450	0.9488	0.3550	0.3650	0.3750	0.3850	1.4800	1.6400
LP distribution / Growth								37%	11%	12%	56%	11%
Coverage			1.2x	1.1x	1.1x	1.1x	1.0x	1.1x	1.1x	1.1x	1.1x	1.1x
Summary Statement of Cash Flow	2010A	2011Q1E	2011Q2E	2011Q3E	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E	2013E
Cash Flow From Operations	0		11.5	12.8	13.1	37.3	12.9	13.5	12.4	13.0	51.8	48.8
Capital Expenditures	0		(5.5)	(5.7)	(5.7)	(16.9)	(3.2)	(3.3)	(3.5)	(3.6)	(13.6)	(15.3)
Sales (Purchases) of Assets	0		0.0	0.0	0.0	0.0	0.0	0.0	(100.0)	0.0	(100.0)	(100.0)
Cash Flow From Investing	0		(5.5)	(5.7)	(5.7)	(16.9)	(3.2)	(3.3)	(103.5)	(3.6)	(113.6)	(115.3)
Distributions	0		(8.5)	(10.7)	(11.0)	(30.1)	(11.3)	(11.6)	(11.9)	(12.2)	(35.7)	(50.6)
Net Equity Issuance	0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt Issuance	0		2.5	3.6	3.6	9.7	1.6	1.3	103.0	2.9	97.6	117.1
Cash Flow From Financing	0		(5.9)	(7.1)	(7.4)	(20.4)	(9.7)	(10.3)	91.1	(9.3)	61.8	66.5
Summary Balance Sheet	2010A	2011Q1E	2011Q2E	2011Q3E	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E	2013E
Cash	3		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Total Current Assets	3		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Net PP&E	132		137.2	142.8	148.5	148.5	151.7	154.9	258.5	262.1	262.1	377.5
Total Assets	137		142.2	147.8	153.5	153.5	156.7	159.9	263.5	267.1	267.1	382.5
Short-Term Debt	0		0.0	0.0	0.0	0.0	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	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	50		52.5	56.1	59.7	59.7	61.3	62.6	165.6	168.5	168.5	285.6
Total Liabilities	50		52.5	56.1	59.7	59.7	61.3	62.6	165.6	168.5	168.5	285.6
Total Equity	87		89.6	91.7	93.8	93.8	95.4	97.3	97.9	98.6	98.6	96.9
Total Liabilities & Equity	137		142.2	147.8	153.5	153.5	156.7	159.9	263.5	267.1	267.1	382.5
Operating Data	2010A	2011Q1E	2011Q2E	2011Q3E	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E	2013E
Crude Gathering												
Pipeline Throughput (bpd)	50,695		55,096	57,437	59,878	56,315	59,878	62,273	64,764	66,707	63,406	67,209
Trucking Volume (bpd)	23,305		23,073	22,957	22,842	23,015	22,614	23,745	24,932	26,178	24,367	26,507
Terminalling, Transportation and Storage												
Terminal Throughput (bpd)	113,950		114,863	115,323	115,784	115,094	116,363	116,945	117,530	118,117	117,239	119,601
Short Haul Pipeline Volume (bpd)	60,666		64,361	66,935	69,612	65,848	72,049	74,571	77,180	79,882	75,920	87,120
Storage capacity reserved	878,000		878,000	878,000	878,000	878,000	878,000	886,000	886,000	886,000	884,000	886,000
Source: Company reports: Oppenheimer & Co. estimates: SNL Please refer to Oqco reports for more details												
5/10/11												

Source: Company reports; Oppenheimer & Co. estimates; SNL. Please refer to Opco reports for more details

5/10/11

Investment Thesis

We initiate coverage of TLLP with an Outperform rating and \$30 price target. It is currently our top pick among our MLP coverage. We believe TLLP represents the first opportunity since WES went public in May 2008 to own a 100% fee-based (low-risk) MLP with significant dropdown and organic growth potential early in its life cycle. We forecast double-digit distribution growth CAGR for the next several years as TLLP expands organically and completes acquisitions. Assets include a large crude oil gathering system in North Dakota and Montana that provides exposure to Bakken formation growth. We believe the Bakken is in the very early stages of development and that TLLP provides one of the most concentrated ways to invest in Bakken production.

Price Target Calculation

Our price target of \$30 per unit is derived using our distribution discount model (DDM). The assumptions underlying this price target are stage one (years 1 & 2) growth of 10%, stage two (years 3- 5) growth of 8%, a terminal growth rate of 2% and a discount rate of 8.0%. The terminal distribution is projected to be \$2.06 and is achieved in 2015.

Key Risks to Price Target

- Weak refined product demand
- Potential to overpay for acquisitions
- Acquisition integration
- Rising interest rates
- Economic weakness
- Capital markets access
- Major change in MLP tax code
- FERC regulatory risk
- Conflicts of interest between LPs and GPs
- Counterparty credit risk
- Energy infrastructure overbuild
- Extreme weather
- A unitholder whose units are loaned to a short seller to cover a short sale of units may be viewed as having sold the units. Unitholders who want to be assured of keeping their status as partners and avoid the risk of gain recognition from a loan to a short seller should consider modifying any brokerage account agreements to prohibit their brokers from borrowing their units. Because of the nature of the MLP structure, all investors should consult a qualified tax counsel before making an investment in the sector.

Important Disclosures and Certifications

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Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by

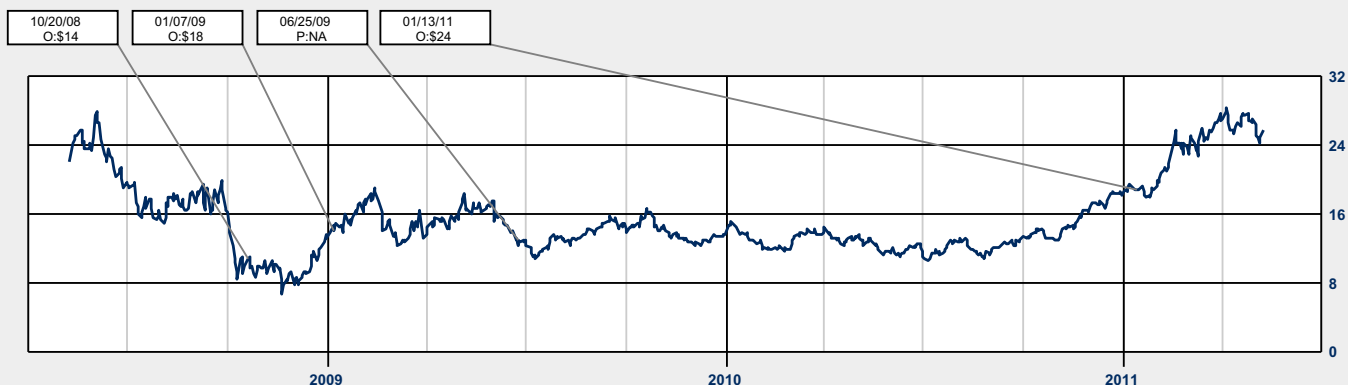
Oppenheimer & Co. Inc:

Stock Prices as of May 10, 2011

Tesoro Corporation (TSO - NYSE, 25.79, OUTPERFORM)

Enbridge Energy Partners (EEP - NYSE, 32.07, PERFORM)

Rating and Price Target History for: Tesoro Corporation (TSO) as of 05-09-2011

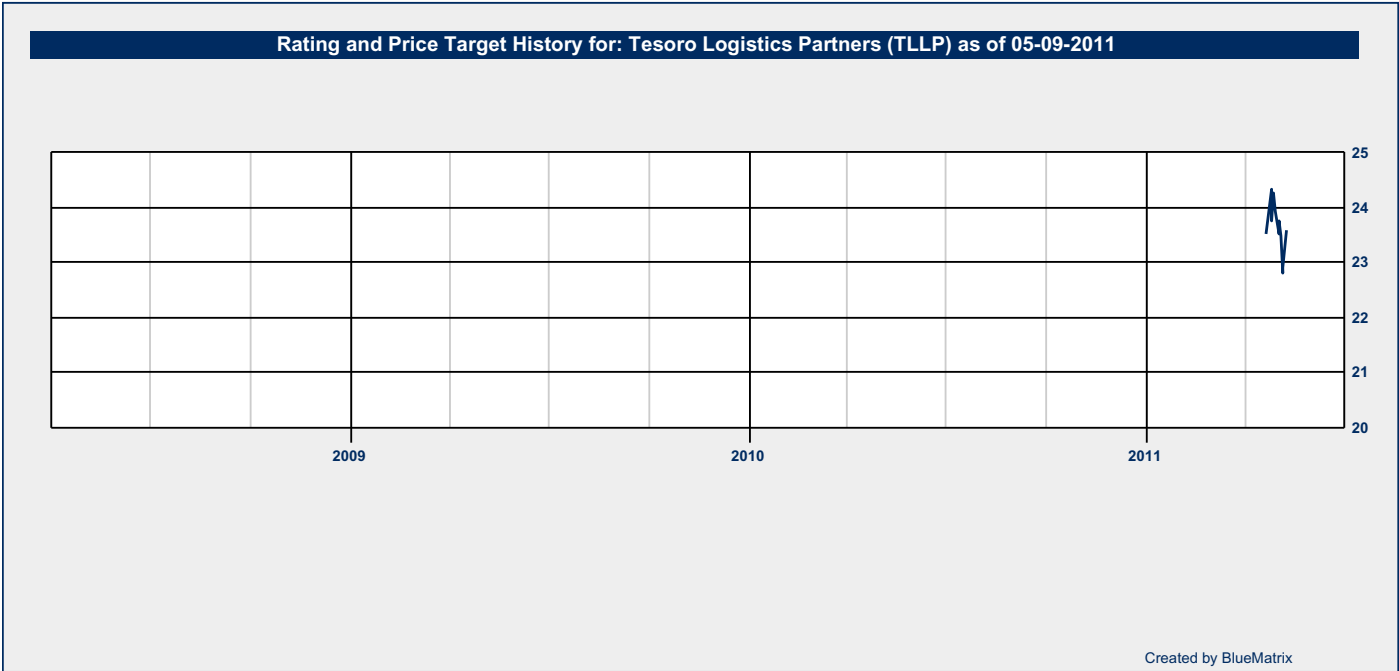


Created by BlueMatrix

Rating and Price Target History for: Enbridge Energy Partners (EEP) as of 05-09-2011



Created by BlueMatrix



All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 300 Madison Avenue, New York, NY 10017, Attention: Equity Research Department, Business Manager.

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Underperform (U) - Stock expected to underperform the S&P 500 within the next 12-18 months.

Not Rated (NR) - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

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Buy - anticipates appreciation of 10% or more within the next 12 months, and/or a total return of 10% including dividend payments, and/or the ability of the shares to perform better than the leading stock market averages or stocks within its particular industry sector.

Neutral - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

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Distribution of Ratings/IB Services Firmwide

Rating	Count	IB Serv/Past 12 Mos.		Count	Percent
		Percent			
OUTPERFORM [O]	302	54.40		133	44.04
PERFORM [P]	244	44.00		78	31.97
UNDERPERFORM [U]	9	1.60		1	11.11

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