UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

R **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2013
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from______________to __________

Commission File Number 1-35143

TESORO LOGISTICS LP

(Exact name of registrant as specified in its charter)

Delaware	**27-4151603**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

19100 Ridgewood Pkwy, San Antonio, Texas 78259-1828
(Address of principal executive offices) (Zip Code)

210-626-6000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £	Accelerated filer R
Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No R

The registrant had 30,276,076 common units, 15,254,890 subordinated units and 929,086 general partner units outstanding at May 3, 2013.

TESORO LOGISTICS LP

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TESORO LOGISTICS LP
CONDENSED STATEMENTS OF COMBINED CONSOLIDATED OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
	(Dollars in thousands, except unit and per unit amounts)	
REVENUES		
Affiliate	$ 47,892	$ 26,353
Third-party	3,730	1,910
Total Revenues	51,622	28,263
COSTS AND EXPENSES		
Operating and maintenance expenses	19,489	15,576
Imbalance settlement gains	(2,424)	(2,490)
Depreciation and amortization expenses	4,081	2,811
General and administrative expenses	6,053	3,575
Loss on asset disposals	164	236
Total Costs and Expenses	27,363	19,708
OPERATING INCOME	24,259	8,555
Interest and financing costs, net	(5,604)	(511)
Interest income	23	—
NET INCOME	18,678	8,044
Loss attributable to Predecessors	—	3,512
Net income attributable to partners	18,678	11,556
General partner's interest in net income, including incentive distribution rights	(1,536)	(230)
Limited partners' interest in net income	$ 17,142	$ 11,326
Net income per limited partner unit:		
Common - basic and diluted	$ 0.40	$ 0.37
Subordinated - basic and diluted	$ 0.37	$ 0.37
Weighted average limited partner units outstanding:		
Common units - basic	28,861,234	15,254,890
Common units - diluted	28,929,128	15,297,023
Subordinated units - basic and diluted	15,254,890	15,254,890
Cash distributions per unit	$ 0.4900	$ 0.3775

See accompanying notes to condensed combined consolidated financial statements.

TESORO LOGISTICS LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2013	December 31, 2012
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 415,450	$ 19,290
Receivables		
Trade	433	343
Affiliate	18,676	17,660
Prepayments and other	576	1,130
Total Current Assets	435,135	38,423
NET PROPERTY, PLANT AND EQUIPMENT	283,985	274,372
DEPOSITS	40,282	40,041
OTHER NONCURRENT ASSETS	12,003	10,342
Total Assets	$ 771,405	$ 363,178
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable		
Trade	$ 10,062	$ 9,005
Affiliate	7,046	7,089
Deferred revenue - affiliate	2,418	2,027
Accrued interest and financing costs	11,707	6,116
Other current liabilities	3,454	3,095
Total Current Liabilities	34,687	27,332
OTHER NONCURRENT LIABILITIES	47	47
DEBT	357,517	353,922
COMMITMENTS AND CONTINGENCIES (Note H)		
EQUITY (DEFICIT)		
Common unitholders; 30,276,076 units issued and outstanding (20,495,254 in 2012)	548,464	153,037
Subordinated unitholders; 15,254,890 units issued and outstanding (15,254,890 in 2012)	(150,521)	(144,162)
General partner; 929,086 units issued and outstanding (729,596 in 2012)	(18,789)	(26,998)
Total Equity (Deficit)	379,154	(18,123)
Total Liabilities and Equity (Deficit)	$ 771,405	$ 363,178

See accompanying notes to condensed combined consolidated financial statements.

TESORO LOGISTICS LP
CONDENSED STATEMENTS OF COMBINED CONSOLIDATED CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2013	**2012**
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:	**(Dollars in thousands)**	
Net income	$ 18,678	$ 8,044
Adjustments to reconcile net income to net cash from (used in) operating activities:		
Depreciation and amortization expenses	4,081	2,811
Amortization of debt issuance costs	416	159
Unit-based compensation expense	442	378
Loss on asset disposals	164	236
Changes in current assets:		
Receivables - trade	(90)	1,820
Receivables - affiliate	(970)	520
Prepayments and other	392	437
Changes in current liabilities:		
Accounts payable - trade	449	(952)
Accounts payable - affiliate	(79)	215
Deferred revenue - affiliate	391	(55)
Other current liabilities	5,830	(502)
Changes in other noncurrent assets and liabilities	—	1,470
Net cash from operating activities	29,704	14,581
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Capital expenditures	(8,860)	(9,261)
Capital expenditure reimbursements by affiliate	128	3,475
Net cash used in investing activities	(8,732)	(5,786)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Proceeds from issuance of common units, net of issuance costs	391,619	—
Proceeds from issuance of general partner units, net of issuance costs	8,319	—
Quarterly distributions to unitholders	(21,524)	(11,060)
Quarterly distributions to general partner	(1,400)	(226)
Payments on capital lease	(101)	—
Financing costs	(2,977)	(532)
Capital contributions by affiliate	1,252	424
Sponsor contributions of equity to the Predecessors	—	5,288
Net cash from (used in) financing activities	375,188	(6,106)
INCREASE IN CASH AND CASH EQUIVALENTS	396,160	2,689
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	19,290	18,326
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 415,450	$ 21,015

See accompanying notes to condensed combined consolidated financial statements.

TESORO LOGISTICS LP
NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A - ORGANIZATION AND BASIS OF PRESENTATION

As used in this report, the terms "Tesoro Logistics LP," "TLLP," the "Partnership," "we," "us," or "our" refer to Tesoro Logistics LP, one or more of its consolidated subsidiaries or all of them taken as a whole. References in this report to "Tesoro" or our "Sponsor" refer collectively to Tesoro Corporation and any of its subsidiaries, other than Tesoro Logistics LP, its subsidiaries and its general partner.

Organization

TLLP is a Delaware limited partnership formed in December 2010 by Tesoro and its wholly owned subsidiary, Tesoro Logistics GP, LLC ("TLGP"), our general partner.

In 2012, we entered into the following transactions with Tesoro and our general partner, TLGP, pursuant to which TLLP acquired from Tesoro: the Martinez crude oil marine terminal assets (collectively, the "Martinez Crude Oil Marine Terminal"), effective April 1, 2012 (the "Martinez Marine Terminal Acquisition"); the Long Beach marine terminal and related short-haul pipelines, including the Los Angeles short-haul pipelines (collectively, the "Long Beach Assets"), effective September 14, 2012 (the "Long Beach Assets Acquisition"); and the Anacortes rail car unloading facility assets (collectively, the "Anacortes Rail Facility"), effective November 15, 2012 (the "Anacortes Rail Facility Acquisition"). These transactions are collectively referred to as "Acquisitions from Tesoro."

Principles of Combination and Consolidation and Basis of Presentation

The Acquisitions from Tesoro were transfers between entities under common control. As an entity under common control with Tesoro, we record the assets that we acquire from Tesoro on our balance sheet at Tesoro's historical basis instead of fair value. Transfers of businesses between entities under common control are accounted for as if the transfer occurred at the beginning of the period, and prior periods are retrospectively adjusted to furnish comparative information. Accordingly, the accompanying financial statements and related notes of TLLP have been retrospectively adjusted to include the historical results of the assets acquired in the Acquisitions from Tesoro for the three months ended March 31, 2012. We refer to the historical results of the Martinez Crude Oil Marine Terminal, the Long Beach Assets and the Anacortes Rail Facility, prior to each acquisition date, collectively as our "Predecessor (s)." See Note B for additional information regarding the acquisitions.

The accompanying financial statements and related notes present the combined results of operations and cash flows of our Predecessors at historical cost. The financial statements of our Predecessors have been prepared from the separate records maintained by Tesoro and may not necessarily be indicative of the conditions that would have existed or the results of operations if our Predecessors had been operated as an unaffiliated entity. Our Predecessors did not record revenue for transactions with Tesoro in the Terminalling, Transportation and Storage segment for assets acquired in the Acquisitions from Tesoro prior to the effective date of each acquisition. All intercompany accounts and transactions have been eliminated.

The interim condensed combined consolidated financial statements and notes thereto have been prepared by management without audit according to the rules and regulations of the Securities and Exchange Commission ("SEC") and reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of results for the periods presented. Such adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to the SEC's rules and regulations. However, management believes that the disclosures presented herein are adequate to present the information fairly. The accompanying interim condensed combined consolidated financial statements and notes should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012.

TESORO LOGISTICS LP
NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

We prepare our condensed combined consolidated financial statements in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We review our estimates on an ongoing basis using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. The results of operations of the Partnership, or our Predecessors, for any interim period are not necessarily indicative of results for the full year. Certain prior year balances have been disaggregated in order to conform to the current year presentation.

We have evaluated subsequent events through the filing of this Form 10-Q.

We record our financial instruments including cash and cash equivalents, receivables, accounts payable and certain accrued liabilities at their carrying value. We believe the carrying value of these financial instruments approximates fair value. Our fair value assessment incorporates a variety of considerations, including:

- the short term duration of the instruments (less than two percent of our trade payables and none of our trade receivables have been outstanding for greater than 90 days); and
- the expected future insignificance of bad debt expense, which includes an evaluation of counterparty credit risk.

The fair value of our senior notes is based on prices from recent trade activity and is categorized in level 2 of the fair value hierarchy. The carrying value and fair value of our total debt were $357.5 million and $378.5 million, respectively, as of March 31, 2013, and $354.0 million and $368.7 million, respectively, as of December 31, 2012.

NOTE B - ACQUISITIONS

We completed the Acquisitions from Tesoro in 2012 and entered into commercial agreements with Tesoro in connection with these acquisitions under which Tesoro commits to provide us with minimum monthly throughput volumes of crude oil and refined products. See our Annual Report on Form 10-K for the year ended December 31, 2012 for additional information regarding the Acquisitions from Tesoro and the commercial agreements and amendments to other agreements with related parties in connection with these acquisitions.

Northwest Products System Acquisition

In December 2012, we executed definitive agreements to purchase Chevron Pipe Line Company's and Northwest Terminalling Company's (collectively, "Chevron") northwest products system (the "Northwest Products System") for a total purchase price of $400.0 million. On March 28, 2013, TLLP and Chevron amended these agreements to extend the final closing date, as defined, from April 1, 2013 to June 1, 2013. The transaction is subject to regulatory approval and is expected to close in the second quarter of 2013. The Partnership paid a deposit of $40.0 million upon execution of the purchase agreements, which may be retained by Chevron upon certain contract termination events.

The Northwest Products System consists of a regulated common carrier products pipeline running from Salt Lake City, Utah to Spokane, Washington, and a jet fuel pipeline to the Salt Lake City International Airport. It also includes certain assets of the Northwest Terminalling Company consisting of the Boise and Pocatello, Idaho and Pasco, Washington refined products terminals. Under the terms of the purchase and sale agreements, we will assume environmental liabilities related to the Northwest Products System. We are evaluating the environmental liabilities existing at the time the purchase and sale agreements were executed. In addition, we are discussing with Chevron the impact associated with a leak identified on a diesel pipeline in March 2013. The operations of the Northwest Products System will be reported in our Terminalling, Transportation and Storage segment upon closing. Pre-acquisition transaction costs of $2.1 million associated with the acquisition of the Northwest Products System are included in general and administrative expenses in our statements of combined consolidated operations for the three months ended March 31, 2013.

TESORO LOGISTICS LP
NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE C - RELATED-PARTY TRANSACTIONS

Affiliate Agreements

The Partnership has various long-term, fee-based commercial agreements with Tesoro under which we provide pipeline transportation, trucking, terminal distribution and storage services to Tesoro, and Tesoro commits to provide us with minimum monthly throughput volumes of crude oil and refined products.

If, in any calendar month, Tesoro fails to meet its minimum volume commitments under these agreements, it will be required to pay us a shortfall payment equal to the revenue associated with the difference between the actual throughput and the minimum throughput commitment. These shortfall payments may be applied as a credit against any amounts due above their minimum volume commitments for up to three months after the shortfall occurs. The balance of deferred revenue-affiliate in our condensed consolidated balance sheets at March 31, 2013 and December 31, 2012 includes $0.2 million and $0.3 million, respectively, related to shortfall billings to Tesoro and the remaining amount represents advanced billings.

We believe the terms and conditions under these agreements, as well as our other agreements with Tesoro are generally no less favorable to either party than those that could have been negotiated with unaffiliated parties with respect to similar services. See our Annual Report on Form 10-K for the year ended December 31, 2012 for a description of our commercial agreements and other agreements with Tesoro.

We entered into the following agreements with Tesoro in 2013:

Amended and Restated Master Terminalling Services Agreement. The Partnership entered into a master terminalling services agreement with Tesoro at the closing of the initial public offering (the "Initial Offering") in April 2011. The agreement was amended and restated on February 22, 2013, to allow for changes to ancillary services and related costs and fees to be made by purchase orders executed among the parties.

Second Amended and Restated Trucking Transportation Services Agreement. The Partnership entered into a trucking transportation services agreement with Tesoro at the closing of the Initial Offering. The agreement was amended and restated on March 26, 2013 to allow for changes to ancillary services and related costs and fees to be made by purchase orders executed among the parties. In addition, the amendment adjusted the comparison of competitive rates to include more market participants in determining future fee adjustments, and it allows for a quarterly rate adjustment in lieu of the previously established annual adjustment.

Affiliate Transactions

Summary of Transactions. A summary of revenue and expense transactions with Tesoro, including expenses directly charged and allocated to our Predecessors, are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Revenues	$ 47,892	$ 26,353
Operating and maintenance expenses (a)	3,397	4,530
General and administrative expenses	2,826	2,758

____

(a) Operating and maintenance expenses include imbalance settlement gains of $2.4 million and $2.5 million for the three months ended March 31, 2013 and 2012, respectively.

In accordance with our partnership agreement, our common, subordinated and general partner interests are entitled to receive quarterly distributions of available cash. In February 2013, we paid a quarterly cash distribution, of which $9.2 million was paid to Tesoro and TLGP. On April 18, 2013, we declared a quarterly cash distribution of $0.49 per unit which will be paid on May 14, 2013. The distribution will consist of $9.8 million to Tesoro and TLGP, including incentive distribution rights ("IDRs").

TESORO LOGISTICS LP
NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE D - NET INCOME PER UNIT

We use the two-class method when calculating the net income per unit applicable to limited partners, because we have more than one participating security. Our participating securities consist of common units, subordinated units, general partner units and IDRs. Net income attributable to the Partnership is allocated between the limited (both common and subordinated) and general partners in accordance with our partnership agreement. We base our calculation of net income per unit, including the allocation of distributions greater than earnings, on the weighted-average number of common and subordinated limited partner units outstanding during the period. Therefore, as a result of the public offering of common units on January 14, 2013, net income per common and subordinated limited partner units will not agree. Diluted net income per unit includes the effects of potentially dilutive units on our common units, which consist of unvested service and performance phantom units. Basic and diluted net income per unit applicable to subordinated limited partners are the same, as there are no potentially dilutive subordinated units outstanding.

The calculation of net income per unit is as follows (in thousands, except unit and per unit amounts):

	Three Months Ended March 31,	
	2013	2012
Net income attributable to partners	$ 18,678	$ 11,556
General partner's distributions (including IDRs) (a)	(1,666)	(236)
Limited partners' distributions on common units	(14,835)	(5,835)
Limited partner's distributions on subordinated units	(7,475)	(5,759)
Distributions greater than earnings	$ (5,298)	$ (274)
General partner's earnings:		
Distributions (including IDRs) (a)	$ 1,666	$ 236
Allocation of distributions greater than earnings	(107)	(6)
Total general partner's earnings	$ 1,559	$ 230
Limited partners' earnings on common units:		
Distributions	$ 14,835	$ 5,835
Allocation of distributions greater than earnings	(3,396)	(134)
Total limited partners' earnings on common units	$ 11,439	$ 5,701
Limited partner's earnings on subordinated units:		
Distributions	$ 7,475	$ 5,759
Allocation of distributions greater than earnings	(1,795)	(134)
Total limited partner's earnings on subordinated units	$ 5,680	$ 5,625
Weighted average limited partner units outstanding:		
Common units - basic	28,861,234	15,254,890
Common unit equivalents	67,894	42,133
Common units - diluted	28,929,128	15,297,023
Subordinated units - basic and diluted	15,254,890	15,254,890
Net income per limited partner unit:		
Common - basic and diluted	$ 0.40	$ 0.37
Subordinated - basic and diluted	$ 0.37	$ 0.37

____

(a) General partner's distributions (including IDRs) consist of an approximate 2% general partner interest and IDRs, which entitle the general partner to receive increasing percentages, up to 50%, of quarterly distributions in excess of $0.388125 per unit per quarter. See the Annual Report on Form 10-K for the year ended December 31, 2012 for further discussion related to IDRs.

TESORO LOGISTICS LP
NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE E - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, at cost, is as follows (in thousands):

	March 31, 2013	December 31, 2012
Crude Oil Gathering	$ 124,526	$ 116,744
Terminalling, Transportation and Storage	260,075	254,381
Gross Property, Plant and Equipment	384,601	371,125
Accumulated depreciation	(100,616)	(96,753)
Net Property, Plant and Equipment	$ 283,985	$ 274,372

NOTE F - MAJOR CUSTOMER AND CONCENTRATIONS OF CREDIT RISK

Tesoro accounted for 93% of our total revenues for the three months ended March 31, 2013 and 2012. The revenues for each period are not comparable as no revenue was recorded by the Predecessors for transactions with Tesoro in the Terminalling, Transportation and Storage segment that were associated with the Martinez Crude Oil Marine Terminal or the Long Beach Assets in the three months ended March 31, 2012. Further, there was no revenue recognized at the Anacortes Rail Facility during the three months ended March 31, 2012 as the the facility was not placed in service until September 2012.

NOTE G - DEBT

Our total debt at March 31, 2013 and December 31, 2012 was comprised of the following (in thousands):

Debt, including current maturities:	March 31, 2013	December 31, 2012
Revolving Credit Facility	$ —	$ —
5.875% TLLP Senior Notes due 2020	350,000	350,000
Capital lease obligations	7,747	4,032
Total Debt	357,747	354,032
Current maturities	(230)	(110)
Debt, less current maturities	$ 357,517	$ 353,922

Revolving Credit Facility. Effective January 4, 2013, we amended and restated our revolving credit agreement (the "Revolving Credit Facility") to increase commitments under the facility from $300.0 million to $500.0 million and to allow us to request that the loan availability be increased up to an aggregate of $650.0 million, subject to receiving increased commitments from the lenders. Further, the Revolving Credit Facility decreases our Eurodollar margin and base rate margins between 0.5% to 1.0%, depending on our leverage ratio, and includes a provision that allows a temporary increase in certain of our financial covenants in the event of a material acquisition. The Revolving Credit Facility is non-recourse to Tesoro, except for TLGP, and is guaranteed by all of our subsidiaries and secured by substantially all of our assets. Borrowings are available under the Revolving Credit Facility up to the total loan availability of the facility.

We had no borrowings and $0.3 million in letters of credit outstanding under the Revolving Credit Facility, resulting in a total unused loan availability of $499.7 million, or 99%, of the borrowing capacity as of March 31, 2013. The Revolving Credit Facility is scheduled to mature on December 31, 2017.

TESORO LOGISTICS LP
NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Revolving Credit Facility, at March 31, 2013, was subject to the following expenses and fees:

Credit Facility	30 day Eurodollar (LIBOR) Rate	Eurodollar Margin	Base Rate	Base Rate Margin	Commitment Fee (unused portion)
TLLP Revolving Credit Facility (a)	0.20%	2.00%	3.25%	1.00%	0.375%

____
(a) We have the option to elect if the borrowings will bear interest at either a base rate plus the base rate margin, or a Eurodollar rate, for the applicable period, plus the Eurodollar margin at the time of the borrowing. The applicable margin varies based upon a certain leverage ratio, as defined by the Revolving Credit Facility. We also incur commitment fees for the unused portion of the Revolving Credit Facility at an annual rate. Letters of credit outstanding under the Revolving Credit Facility incur fees at the Eurodollar margin rate.

NOTE H - COMMITMENTS AND CONTINGENCIES

Indemnification

The Partnership entered into an omnibus agreement with Tesoro at the closing of the Initial Offering. The agreement has been amended for each acquisition from Tesoro including the most recent November 15, 2012 amendment, which was entered into in connection with the Anacortes Rail Facility Acquisition (the "Second Amended Omnibus Agreement"). Under the Second Amended Omnibus Agreement, Tesoro indemnifies us for certain matters, including environmental, title and tax matters associated with the ownership of our assets at or before the closing of the Initial Offering and the subsequent acquisitions. With respect to assets that we acquired from Tesoro, indemnification for unknown environmental and title liabilities is limited to pre-closing conditions identified prior to the earlier of the date that Tesoro no longer controls our general partner or five years after the date of closing.

Under the Second Amended Omnibus Agreement, the aggregate annual deductible for each type of liability (unknown environmental liabilities or title matters) is $0.6 million, as of March 31, 2013, before we are entitled to indemnification in any calendar year in consideration of the initial assets and all subsequent acquisitions from Tesoro. In addition, with respect to the assets that we acquired from Tesoro, we have agreed to indemnify Tesoro for events and conditions associated with the ownership or operation of our assets that occur after the closing of the Initial Offering, and the subsequent acquisitions, and for environmental liabilities related to our assets to the extent Tesoro is not required to indemnify us for such liabilities. See our Annual Report on Form 10-K for the year ended December 31, 2012 for additional information regarding the Second Amended Omnibus Agreement.

Contingencies

In the ordinary course of business, we may become party to lawsuits, administrative proceedings and governmental investigations, including environmental, regulatory and other matters. The outcome of these matters cannot always be predicted accurately, but TLLP will accrue liabilities for certain of these matters if the amount is probable and can be reasonably estimated. Contingencies arising after the closing of the Initial Offering from conditions existing before the Initial Offering, and the subsequent acquisitions from Tesoro that have been identified after the closing of each transaction, will be recorded in accordance with the indemnification terms set forth in the Second Amended Omnibus Agreement. Any contingencies arising from events after the Initial Offering, and the subsequent acquisitions from Tesoro, will be accrued by TLLP. We did not have any outstanding lawsuits, administrative proceedings or governmental investigations as of March 31, 2013.

NOTE I - EQUITY

We had 28,992,161 common public units outstanding as of March 31, 2013. Additionally, Tesoro owned 1,283,915 of our common units, 15,254,890 of our subordinated units and 929,086 of our general partner units (the 2% general partner interest) as of March 31, 2013, which together constitutes a 38% ownership interest in us.

The table below summarizes changes in the number of units outstanding from December 31, 2012 through March 31, 2013 (in units):

	Common	Subordinated	General Partner	Total
Balance at December 31, 2012	20,495,254	15,254,890	729,596	36,479,740
Issuance of units in equity offering (a)	9,775,000	—	199,490	9,974,490
Unit-based compensation awards (b)	5,822	—	—	5,822
Balance at March 31, 2013	30,276,076	15,254,890	929,086	46,460,052

(a) On January 14, 2013, we closed a registered public offering of 9,775,000 common units representing limited partner interests, at a public offering price of $41.70 per unit and received net proceeds of $391.6 million. In addition, on January 14, 2013, TLGP contributed $8.3 million in exchange for 199,490 general partner units to maintain a 2% general partnership interest.
(b) Unit-based compensation awards are presented net of 788 units withheld for taxes.

The summarized changes in the carrying amount of our equity (deficit) are as follows (in thousands):

	Common	Subordinated	General Partner	Total
Balance at December 31, 2012	$ 153,037	$ (144,162)	$ (26,998)	$ (18,123)
Equity offering, net of issuance costs	397,175	(5,263)	7,998	399,910
Quarterly distributions	(14,316)	(7,208)	(1,400)	(22,924)
Net income attributable to partners	11,223	5,919	1,536	18,678
Other	1,345	193	75	1,613
Balance at March 31, 2013	$ 548,464	$ (150,521)	$ (18,789)	$ 379,154

Issuance of Additional Securities. Our partnership agreement authorizes us to issue an unlimited number of additional partnership securities for consideration, and on the terms and conditions determined by our general partner, without the approval of the unitholders. Costs associated with the issuance of securities are allocated to all unitholders' capital accounts based on their ownership interest at the time of issuance.

Allocations of Net Income. Our partnership agreement contains provisions for the allocation of net income and loss to the unitholders and the general partner. For purposes of maintaining partner capital accounts, the partnership agreement specifies that items of income and loss will be allocated among the partners in accordance with their respective percentage interest. Normal allocations according to percentage interests are made after giving effect, if any, to priority income allocations in an amount equal to incentive cash distributions allocated 100% to the general partner.

The following table presents the allocation of the general partner's interest in net income (in thousands, except percentage of ownership interest):

	Three Months Ended March 31,	
	2013	2012
Net income attributable to partners	$ 18,678	$ 11,556
General partner's IDRs	(1,186)	—
Net income available to partners	$ 17,492	$ 11,556
General partner's ownership interest	2.0%	2.0%
General partner's allocated interest in net income	$ 350	$ 230
General partner's IDRs	1,186	—
Total general partner's interest in net income	$ 1,536	$ 230

TESORO LOGISTICS LP
NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Cash distributions. Our partnership agreement, as amended, sets forth the calculation to be used to determine the amount and priority of cash distributions that the common and subordinated unitholders and general partner will receive. In accordance with our partnership agreement, on April 18, 2013, we declared a quarterly cash distribution of $0.49 per unit which will be paid on May 14, 2013, to unitholders of record on May 3, 2013. The total cash distribution to be paid is $24.0 million and includes amounts to be paid for IDRs. On February 14, 2013, we paid a quarterly cash distribution of $0.4725, which totaled $22.9 million and included amounts paid for IDRs.

The allocation of total quarterly cash distributions to general and limited partners is as follows for the three months ended March 31, 2013 and 2012 (in thousands). Our distributions are declared subsequent to quarter end; therefore, the table represents total cash distributions applicable to the period in which the distributions are earned.

	Three Months Ended March 31,	
	2013	2012
General partner's distributions:		
General partner's distributions	$ 480	$ 236
General partner's IDRs	1,186	—
Total general partner's distributions	1,666	236
Limited partners' distributions:		
Common	14,835	5,835
Subordinated	7,475	5,759
Total limited partners' distributions	22,310	11,594
Total Cash Distributions	$ 23,976	$ 11,830

NOTE J - EQUITY-BASED COMPENSATION

Unit-based compensation expense related to the Partnership that was included in our condensed statements of combined consolidated operations was as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Performance phantom units	$ 401	$ 349
Service phantom units	41	29
Total Unit-Based Compensation Expense	$ 442	$ 378

Performance Phantom Unit Awards. We granted 66,000 performance phantom unit awards at a grant date fair value of $42.70 in February 2013. The estimated fair value of these awards is amortized over a three-year vesting period using the straight-line method. Total unrecognized compensation cost related to our nonvested performance phantom units totaled $3.6 million as of March 31, 2013, which is expected to be recognized over a weighted-average period of 29 months.

Service Phantom Unit Awards. We granted approximately 3,500 service phantom unit awards at a grant date fair value of $48.70 in February 2013. The estimated fair value of these awards is amortized over a one-year vesting period using the straight-line method. Total unrecognized compensation cost related to our nonvested service phantom units totaled $0.2 million as of March 31, 2013, which is expected to be recognized over a weighted-average period of 11 months.

TESORO LOGISTICS LP
NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE K - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of non-cash activities is as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Capital expenditures included in accounts payable	$ 6,401	$ 8,004
Capital lease obligation	3,840	—
Receivable from affiliate for capital expenditures	403	—

NOTE L - SEGMENT DISCLOSURES

Our revenues are derived from two operating segments: Crude Oil Gathering and Terminalling, Transportation and Storage. Our Crude Oil Gathering segment consists of a crude oil gathering system in the Bakken Shale/Williston Basin area of North Dakota and Montana. Our Terminalling, Transportation and Storage segment consists of eight refined products terminals in the midwestern and western United States, a crude oil and refined products storage facility and five related short-haul pipelines in Utah, two marine terminals, including storage tanks and related short-haul pipelines in California and a rail car unloading facility in Washington. Our revenues are generated from existing third-party contracts and from commercial agreements we have entered into with Tesoro under which Tesoro pays us fees for gathering crude oil and distributing, transporting and storing crude oil and refined products. The commercial agreements with Tesoro are described in Note C. We do not have any foreign operations.

Our operating segments are strategic business units that offer different services and are managed separately, because each segment requires different industry knowledge, technology and marketing strategies. We evaluate the performance of each segment based on its respective operating income. Certain general and administrative expenses and interest and financing costs are excluded from segment operating income as they are not directly attributable to a specific operating segment. Identifiable assets are those used by the segment, whereas other assets are principally cash, deposits and other assets that are not associated with a specific operating segment.

Capital expenditures by operating segment were as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Capital Expenditures		
Crude Oil Gathering	$ 3,945	$ 2,621
Terminalling, Transportation and Storage	6,291	10,361
Total Capital Expenditures	$ 10,236	$ 12,982

Identifiable assets by operating segment were as follows (in thousands):

Identifiable Assets	March 31, 2013	December 31, 2012
Crude Oil Gathering	$ 94,448	$ 87,194
Terminalling, Transportation and Storage	208,735	205,246
Other	468,222	70,738
Total Identifiable Assets	$ 771,405	$ 363,178

Segment information is as follows (in thousands):

	Three Months Ended March 31, 2013	2012
REVENUES		
Crude Oil Gathering:		
Affiliate	$ 21,377	$ 13,979
Third-party	314	123
Total Crude Oil Gathering	21,691	14,102
Terminalling, Transportation and Storage:		
Affiliate (a)	26,515	12,374
Third-party	3,416	1,787
Total Terminalling, Transportation and Storage	29,931	14,161
Total Segment Revenues	$ 51,622	$ 28,263
OPERATING AND MAINTENANCE EXPENSES		
Crude Oil Gathering	$ 12,360	$ 8,123
Terminalling, Transportation and Storage	7,129	7,453
Total Segment Operating and Maintenance Expenses	$ 19,489	$ 15,576
IMBALANCE SETTLEMENT GAINS		
Crude Oil Gathering	$ (1,396)	$ (1,279)
Terminalling, Transportation and Storage	(1,028)	(1,211)
Total Segment Imbalance Settlement Gains	$ (2,424)	$ (2,490)
DEPRECIATION AND AMORTIZATION EXPENSES		
Crude Oil Gathering	$ 1,006	$ 783
Terminalling, Transportation and Storage	3,075	2,028
Total Segment Depreciation and Amortization Expenses	$ 4,081	$ 2,811
GENERAL AND ADMINISTRATIVE EXPENSES		
Crude Oil Gathering	$ 694	$ 711
Terminalling, Transportation and Storage	1,042	705
Total Segment General and Administrative Expenses	$ 1,736	$ 1,416
LOSS ON ASSET DISPOSALS		
Crude Oil Gathering	$ —	$ —
Terminalling, Transportation and Storage	164	236
Total Segment Loss on Asset Disposals	$ 164	$ 236
OPERATING INCOME		
Crude Oil Gathering	$ 9,027	$ 5,764
Terminalling, Transportation and Storage	19,549	4,950
Total Segment Operating Income	28,576	10,714
Unallocated general and administrative expenses	(4,317)	(2,159)
Interest and financing costs, net	(5,604)	(511)
Interest income	23	—
NET INCOME	$ 18,678	$ 8,044

____

(a) Our Predecessors did not record revenue for transactions with Tesoro in the Terminalling, Transportation and Storage segment for assets acquired in the Acquisitions from Tesoro prior to the effective date of each acquisition.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context otherwise requires, references in this report to "Tesoro Logistics LP," "TLLP," "the Partnership," "we," "us" or "our" refer to Tesoro Logistics LP, one or more of its consolidated subsidiaries or all of them taken as a whole. Unless the context otherwise requires, references in this report to "Tesoro" or our "Sponsor" refer collectively to Tesoro Corporation and any of its subsidiaries, other than Tesoro Logistics LP, its subsidiaries and its general partner.

In 2012, we entered into the following transactions with Tesoro and our general partner, Tesoro Logistics GP, LLC ("TLGP"), pursuant to which TLLP acquired from Tesoro: the Martinez crude oil marine terminal assets (collectively, the "Martinez Crude Oil Marine Terminal"), effective April 1, 2012 (the "Martinez Marine Terminal Acquisition"); the Long Beach marine terminal and related short-haul pipelines, including the Los Angeles short-haul pipelines (collectively, the "Long Beach Assets"), effective September 14, 2012 (the "Long Beach Assets Acquisition"); and the Anacortes rail car unloading facility assets (collectively, the "Anacortes Rail Facility"), effective November 15, 2012 (the "Anacortes Rail Facility Acquisition").

These transactions (collectively referred to as "Acquisitions from Tesoro") were transfers between entities under common control. Accordingly, the financial information of TLLP contained herein has been retrospectively adjusted to include the historical results of the assets acquired in the Acquisitions from Tesoro for the three months ended March 31, 2012.

We refer to the historical results of the Martinez Crude Oil Marine Terminal, the Long Beach Assets and the Anacortes Rail Facility, prior to each acquisition date, collectively as our "Predecessor(s)." The results of the Acquisitions from Tesoro are included in the Terminalling, Transportation and Storage segment. Our financial results may not be comparable as our Predecessor(s) recorded revenues, general and administrative expenses and financed operations differently than the Partnership. See "Factors Affecting the Comparability of Our Financial Results" in our Annual Report on Form 10-K for the year ended December 31, 2012.

Those statements in this section that are not historical in nature should be deemed forward-looking statements that are inherently uncertain. See "Important Information Regarding Forward-Looking Statements" on page 29 for a discussion of the factors that could cause actual results to differ materially from those projected in these statements.

This section should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012.

OVERVIEW AND BUSINESS STRATEGY

We are a fee-based, growth-oriented Delaware limited partnership formed by Tesoro to own, operate, develop and acquire logistics assets. Our logistics assets are integral to the success of Tesoro's refining and marketing operations and are used to gather crude oil and to distribute, transport and store crude oil and refined products. Our assets consist of a crude oil gathering system (the "High Plains System") in the Bakken Shale/Williston Basin area of North Dakota and Montana (the "Bakken Region"), eight refined products terminals in the midwestern and western United States, a crude oil and refined products storage facility and five related short-haul pipelines in Utah, two marine terminals, including storage tanks and related short-haul pipelines in California and a rail car unloading facility in Washington.

Our financial information includes the historical results of our Predecessors (for the three months ended March 31, 2012) and the results of TLLP (for all periods presented). The financial statements of our Predecessors have been prepared from the separate records maintained by Tesoro and may not necessarily be indicative of the conditions that would have existed or the results of operations if our Predecessors had been operated as an unaffiliated entity. Most notably, this applies to the revenue associated with the terms of the commercial agreements as our Predecessors did not record revenues for transactions with Tesoro in the Terminalling, Transportation and Storage segment for assets acquired in the Acquisitions from Tesoro prior to the effective date of each acquisition.

We generate revenue by charging fees for gathering, transporting and storing crude oil and for terminalling, transporting and storing crude oil and refined products. Since we do not own any of the crude oil or refined products that we handle nor engage in the trading of crude oil or refined products, we have minimal direct exposure to risks associated with commodity price fluctuations. However, these risks indirectly influence our activities and results of operations over the long term through their effects on our customers' operations. For the three months ended March 31, 2013, 93% of our total revenues were derived from Tesoro under various long-term, fee-based commercial agreements that generally include minimum volume commitments.

Strategy and Objectives

Our primary business objectives are to maintain stable cash flows and to increase our quarterly cash distribution per unit over time. We intend to accomplish these objectives by executing the following strategies:

- focus on opportunities to provide committed fee-based logistics services to Tesoro and third parties;
- evaluate investment opportunities that may arise from the growth of Tesoro's refining and marketing business or from increased third-party activity to make capital investments to expand our existing asset base;
- pursue accretive acquisitions of complementary assets from Tesoro as well as third parties; and
- seek to enhance the profitability of our existing assets by pursuing opportunities to add Tesoro and third-party volumes, improve operating efficiencies and increase utilization.

Since the closing of the initial public offering (the "Initial Offering") in April 2011, we have been implementing our strategy discussed above, which has allowed us to grow our distributable cash flow and increase our distributions 30% over the last year. In the future, we intend to continue to implement this strategy and have announced plans to:

- expand our assets on the High Plains System in support of growing third-party demand for transportation services and Tesoro's increased demand for Bakken crude oil in the mid-continent and west coast refining systems, including:
  - expanding our proprietary truck fleet, which should generate cost and operating efficiencies;
  - increasing tank capacity to provide new storage services to shippers;
  - adding other origin and destination points on the High Plains System to increase volumes; and
  - reversing a segment of our High Plains pipeline to allow for the optimization of the pipeline's capacity to meet shipper demand to transport crude oil from areas of increasing production to new outlets.
- increase our terminalling volumes by expanding capacity at our Mandan, Salt Lake City and Stockton terminals and by growing our third-party services at our Burley, Vancouver and Stockton terminals; and
- complete the acquisition of the integrated logistics system Tesoro intends to purchase from BP as part of the integrated Southern California refining and marketing business (the "Carson Acquisition") including three marine terminals, four land storage terminals, over 100 miles of pipelines (including connected access to the Los Angeles International Airport) and four product marketing terminals. Tesoro has indicated that it intends to offer us the integrated logistics system in multiple transactions during the first twelve months following the closing of the Carson Acquisition with the goal that the first transaction will coincide with Tesoro's closing of the Carson Acquisition. Although Tesoro has indicated it will offer us these assets, it is not obligated to do so.

In addition, in December 2012, we executed definitive agreements to purchase Chevron Pipe Line Company's and Northwest Terminalling Company's (collectively, "Chevron") northwest products system (the "Northwest Products System") for a total purchase price of $400.0 million. On March 28, 2013, TLLP and Chevron amended these agreements to extend the final closing date, as defined, from April 1, 2013 to June 1, 2013. The transaction is subject to regulatory approval and is expected to close in the second quarter of 2013. The Partnership paid a deposit of $40.0 million upon execution of the purchase agreements, which may be retained by Chevron upon certain contract termination events. In January 2013, we received net proceeds of $391.6 million in an equity offering, which we intend to use to acquire the Northwest Products System.

The Northwest Products System consists of a 760-mile Federal Energy Regulatory Commission regulated common carrier products pipeline running from Salt Lake City, Utah to Spokane, Washington, and a five-mile jet fuel pipeline to the Salt Lake City International Airport. It also includes certain assets of the Northwest Terminalling Company consisting of the Boise and Pocatello, Idaho and Pasco, Washington refined products terminals. Under the terms of the purchase and sale agreements, we will assume environmental liabilities related to the Northwest Products System. We are evaluating the environmental liabilities existing at the time the purchase and sale agreements were executed. In addition, we are discussing with Chevron the impact associated with a leak identified on a diesel pipeline in March 2013. We do not expect that these environmental liabilities will have a material impact on our financial position, results of operations or liquidity.

The common carrier pipeline is the primary supply source of refined products to southern Idaho and is a major supplier of refined products to eastern Washington. Delivery volumes on the pipeline system average approximately 85,000 barrels per day ("bpd"). The terminals have a total storage capacity of 1.3 million barrels and deliver an average of approximately 55,000 bpd. The operations of the Northwest Products System will be reported in our Terminalling, Transportation and Storage segment upon closing.

Agreements with Tesoro

The Partnership has various long-term, fee-based commercial agreements with Tesoro under which we provide pipeline transportation, trucking, terminal distribution and storage services to Tesoro, and Tesoro commits to provide us with minimum monthly throughput volumes of crude oil and refined products.

We believe the terms and conditions under these agreements, as well as our other agreements with Tesoro are generally no less favorable to either party than those that could have been negotiated with unaffiliated parties with respect to similar services. See our Annual Report on Form 10-K for the year ended December 31, 2012 for a description of our commercial agreements and other agreements with Tesoro.

We entered into the following agreements with Tesoro in 2013:

Amended and Restated Master Terminalling Services Agreement. The Partnership entered into a master terminalling services agreement with Tesoro at the closing of the initial public offering in April 2011. The agreement was amended and restated on February 22, 2013, to allow for changes to ancillary services and related costs and fees to be made by purchase orders executed among the parties.

Second Amended and Restated Trucking Transportation Services Agreement. The Partnership entered into a trucking transportation services agreement with Tesoro at the closing of the initial public offering. The agreement was amended and restated on March 26, 2013 (the "Amended Trucking Agreement") to allow for changes to ancillary services and related costs and fees to be made by purchase orders executed among the parties. In addition, the amendment adjusted the comparison of competitive rates to include more market participants in determining future fee adjustments, and it allows for a quarterly rate adjustment in lieu of the previously established annual adjustment.

Non-GAAP Financial Measures

Our management uses a variety of financial and operating measures to analyze operating segment performance. To supplement our financial information presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), our management uses additional measures that are known as "non-GAAP" financial measures in its evaluation of past performance and prospects for the future. These measures are significant factors in assessing our operating results and profitability and include earnings before interest, income taxes, depreciation and amortization expenses ("EBITDA") and distributable cash flow.

We define EBITDA as net income before depreciation and amortization expenses, net interest and financing costs and interest income. We define distributable cash flow as EBITDA less maintenance capital expenditures and net interest and financing costs, plus reimbursement by Tesoro for certain maintenance capital expenditures and other reimbursements by Tesoro, non-cash unit-based compensation expense, loss on asset disposals, interest income, and the change in deferred revenue. EBITDA and distributable cash flow are not measures prescribed by U.S. GAAP but are supplemental financial measures that are used by management and may be used by external users of our financial statements, such as industry analysts, investors, lenders and rating agencies, to assess:

- our operating performance as compared to other publicly traded partnerships in the midstream energy industry, without regard to historical cost basis or financing methods;
- the ability of our assets to generate sufficient cash flow to make distributions to our unitholders;
- our ability to incur and service debt and fund capital expenditures; and
- the viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities.

We believe that the presentation of EBITDA will provide useful information to investors in assessing our financial condition and results of operations. The U.S. GAAP measures most directly comparable to EBITDA are net income and net cash from operating activities. The amounts included in the calculation of EBITDA are derived from amounts separately presented in our condensed combined consolidated financial statements. EBITDA should not be considered as an alternative to U.S. GAAP net income or net cash from operating activities. EBITDA has important limitations as an analytical tool, because it excludes some, but not all, items that affect net income and net cash from operating activities.

We believe that the presentation of distributable cash flow will provide useful information to investors as it is a widely accepted financial indicator used by investors to compare partnership performance, as it provides investors an enhanced perspective of the operating performance of our assets and the cash our business is generating. The U.S. GAAP measure most directly comparable to distributable cash flow is net income.

We also include total capital expenditures excluding the results of our Predecessors. We believe that the presentation of our capital expenditures excluding results of our Predecessors will provide useful information to investors in assessing our capital expenditures for the Partnership prior to adjustments for Predecessor capital expenditures.

These non-GAAP financial measures should not be considered in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, because they may be defined differently by other companies in our industry, thereby diminishing their utility.

RESULTS OF OPERATIONS

A discussion and analysis of the factors contributing to our results of operations presented below includes the combined financial results of our Predecessors for the three months ended March 31, 2012 and the consolidated financial results of TLLP for all periods presented. The financial statements, together with the following information, are intended to provide investors with a reasonable basis for assessing our historical operations, but should not serve as the only criteria for predicting our future performance.

Combined Overview

The following table and discussion is a summary of our results of operations for the three months ended March 31, 2013 and 2012, including a reconciliation of EBITDA to net income and net cash from operating activities and distributable cash flow to net income (in thousands, except unit and per unit amounts). Our financial results may not be comparable as our Predecessors recorded revenues, general and administrative expenses and financed operations differently than the Partnership. See "Factors Affecting the Comparability of Our Financial Results" in our Annual Report on Form 10-K for the year ended December 31, 2012 for further information.

	Three Months Ended March 31,	
	2013	2012
REVENUES		*(including Predecessors)*
Crude Oil Gathering	$ 21,691	$ 14,102
Terminalling, Transportation and Storage (a)	29,931	14,161
Total Revenues	51,622	28,263
COSTS AND EXPENSES		
Operating and maintenance expenses (b)	17,065	13,086
Depreciation and amortization expenses	4,081	2,811
General and administrative expenses	6,053	3,575
Loss on asset disposals	164	236
Total Costs and Expenses	27,363	19,708
OPERATING INCOME	24,259	8,555
Interest and financing costs, net	(5,604)	(511)
Interest income	23	—
NET INCOME	18,678	8,044
Loss attributable to Predecessors	—	3,512
Net income attributable to partners	18,678	11,556
General partner's interest in net income, including incentive distribution rights	(1,536)	(230)
Limited partners' interest in net income	$ 17,142	$ 11,326
Net income per limited partner unit:		
Common - basic and diluted	$ 0.40	$ 0.37
Subordinated - basic and diluted	$ 0.37	$ 0.37
Weighted average limited partner units outstanding:		
Common units - basic	28,861,234	15,254,890
Common units - diluted	28,929,128	15,297,023
Subordinated units - basic and diluted	15,254,890	15,254,890
EBITDA (c)	$ 28,340	$ 11,366
Distributable Cash Flow (c)	$ 23,023	$ 10,405

	Three Months Ended March 31,	
	2013	2012
Reconciliation of EBITDA and Distributable Cash Flow to Net Income:		*(including Predecessors)*
Net income	$ 18,678	$ 8,044
Depreciation and amortization expenses	4,081	2,811
Interest and financing costs, net	5,604	511
Interest income	(23)	—
EBITDA (c)	$ 28,340	$ 11,366
Maintenance capital expenditures (d)	(1,896)	(1,064)
Interest and financing costs, net	(5,604)	(511)
Reimbursement for maintenance capital expenditures (d)	1,183	—
Non-cash unit-based compensation expense	430	378
Loss on asset disposals	164	236
Change in deferred revenue related to shortfall payments	(101)	—
Change in other deferred revenue	484	—
Interest income	23	—
Distributable Cash Flow (c) (e)	$ 23,023	$ 10,405
Reconciliation of EBITDA to Net Cash from Operating Activities:		
Net cash from operating activities	$ 29,704	$ 14,581
Changes in assets and liabilities	(5,923)	(2,953)
Amortization of debt issuance costs	(416)	(159)
Unit-based compensation expense	(442)	(378)
Loss on asset disposals	(164)	(236)
Interest income	(23)	—
Interest and financing costs, net	5,604	511
EBITDA (c)	$ 28,340	$ 11,366

____

(a) Our Predecessors did not record revenue for transactions with Tesoro in the Terminalling, Transportation and Storage segment for assets acquired in the Acquisitions from Tesoro prior to the effective date of each acquisition.

(b) Operating and maintenance expenses include imbalance settlement gains of $2.4 million and $2.5 million in the three months ended March 31, 2013 and 2012, respectively.

(c) For a definition of EBITDA and distributable cash flow, see "Non-GAAP Financial Measures."

(d) Maintenance capital expenditures include expenditures required to maintain equipment, ensure the reliability, integrity and safety of our tankage and pipelines and address environmental regulations.

(e) Certain prior year balances have been aggregated or disaggregated in order to conform to the current year presentation.

Summary

Our net income for the three months ended March 31, 2013 ("2013 Quarter") increased $10.7 million, or 132%, to $18.7 million from $8.0 million for the three months ended March 31, 2012 ("2012 Quarter"). The increase in net income was primarily due to an increase in revenue of $23.4 million, or 83%, to $51.6 million principally attributable to $16.4 million in higher revenue under the new commercial agreements entered into in conjunction with the Acquisitions from Tesoro and an increase in throughput volumes in the Crude Oil Gathering segment. The increase in revenue was partially offset by:

- an increase in operating and maintenance expenses of $4.0 million, or 30%, mainly related to higher contract trucking expenses and increased costs associated with operations at the Anacortes Rail Facility, which was placed in service in September 2012; and
- an increase in general and administrative expenses of $2.5 million, or 69%, primarily related to $2.1 million of costs related to the announced acquisition of the Northwest Products System.

Crude Oil Gathering Segment

The following table and discussion is an explanation of our results of operations of the Crude Oil Gathering segment for the three months ended March 31, 2013 and 2012 (in thousands, except barrel and per barrel amounts):

	Three Months Ended March 31,	
	2013	**2012**
REVENUES		
Pipeline revenues	$ 9,441	$ 7,412
Trucking revenues	12,250	6,690
Total Revenues	21,691	14,102
COSTS AND EXPENSES		
Operating and maintenance expenses (a)	10,964	6,844
Depreciation and amortization expenses	1,006	783
General and administrative expenses	694	711
Total Costs and Expenses	12,664	8,338
CRUDE OIL GATHERING SEGMENT OPERATING INCOME	$ 9,027	$ 5,764
VOLUMES (bpd)		
Pipeline throughput (b)	82,357	59,744
Average pipeline revenue per barrel (c)	$ 1.27	$ 1.36
Trucking volume	44,925	25,364
Average trucking revenue per barrel (c)	$ 3.03	$ 2.90

(a) Operating and maintenance expenses include imbalance settlement gains of $1.4 million and $1.3 million for the three months ended March 31, 2013 and 2012, respectively.
(b) Also includes barrels that were gathered and then delivered into our High Plains System by truck.
(c) Management uses average revenue per barrel to evaluate performance and compare profitability to other companies in the industry. There are a variety of ways to calculate average revenue per barrel; different companies may calculate it in different ways. We calculate average revenue per barrel as revenue divided by the number of days in the period divided by throughput (bpd). Investors and analysts use this financial measure to help analyze and compare companies in the industry on the basis of operating performance. This financial measure should not be considered as an alternative to segment operating income, revenues and operating expenses or any other measure of financial performance presented in accordance with U.S. GAAP.

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Volumes. Average pipeline throughput volumes increased 22,613 bpd, or 38%, in the 2013 Quarter primarily as a result of demand driven by the expansion at Tesoro's North Dakota refinery and shipments to new destinations by non-affiliate shippers. Trucking throughput volumes increased 19,561 bpd, or 77%, as a result of higher demand in support of Tesoro's strategy to move Bakken crude oil to its North Dakota refinery and alternate locations.

Financial Results. Revenues increased $7.6 million, or 54%, to $21.7 million for the 2013 Quarter compared to $14.1 million in the 2012 Quarter. Pipeline and trucking revenues increased $2.0 million and $5.6 million, respectively, compared to the 2012 Quarter primarily as a result of higher pipeline throughput and trucking volumes.

Operating and maintenance expenses increased $4.2 million, or 60%, to $11.0 million in the 2013 Quarter compared to $6.8 million in the 2012 Quarter. This increase is primarily related to $3.7 million costs associated with growth in our trucking operations.

Depreciation and amortization expenses increased $0.2 million, or 28%, to $1.0 million in the 2013 Quarter compared to $0.8 million in the 2012 Quarter as a result of assets placed in service in 2012, including expansion projects and the connection to Inergy's crude oil loading terminal at Dry Fork, North Dakota.

Terminalling, Transportation and Storage Segment

The following table and discussion is an explanation of our results of operations of the Terminalling, Transportation and Storage segment, including the results of the Acquisitions from Tesoro, for the three months ended March 31, 2013 and 2012 (in thousands, except barrel and per barrel amounts). Our financial information includes the historical results of our Predecessors (for the three months ended March 31, 2012) and the results of TLLP (for all periods presented). See "Factors Affecting the Comparability of Our Financial Results" in our Annual Report on Form 10-K for the year ended December 31, 2012 for further information.

	Three Months Ended March 31,	
	2013	**2012**
REVENUES (a)		*(including Predecessors)*
Terminalling revenues	$ 26,543	$ 11,214
Pipeline transportation revenues	2,007	1,608
Storage revenues	1,381	1,339
Total Revenues	29,931	14,161
COSTS AND EXPENSES		
Operating and maintenance expenses (b)	6,101	6,242
Depreciation and amortization expenses	3,075	2,028
General and administrative expenses	1,042	705
Loss on asset disposals	164	236
Total Costs and Expenses	10,382	9,211
TERMINALLING, TRANSPORTATION AND STORAGE SEGMENT OPERATING INCOME	$ 19,549	$ 4,950
VOLUMES (bpd)		
Terminalling throughput	395,868	257,286
Average terminalling revenue per barrel (a) (c)	$ 0.75	$ 0.48
Pipeline transportation throughput	91,903	90,656
Average pipeline transportation revenue per barrel (a) (c)	$ 0.24	$ 0.19
Storage capacity reserved (shell capacity barrels)	878,000	878,000
Storage revenue per barrel on shell capacity (per month) (c)	$ 0.52	$ 0.51

____

(a) Our Predecessors did not record revenue for transactions with Tesoro in the Terminalling, Transportation and Storage segment for assets acquired in the Acquisitions from Tesoro prior to the effective date of each acquisition. Volumes for all periods presented include both affiliate and third-party throughput.

(b) Operating and maintenance expenses include imbalance settlement gains of $1.0 million and $1.2 million for the three months ended March 31, 2013 and 2012, respectively.

(c) Management uses average revenue per barrel and storage revenue per barrel on shell capacity to evaluate performance and compare profitability to other companies in the industry. There are a variety of ways to calculate average revenue per barrel; different companies may calculate it in different ways. We calculate average revenue per barrel as revenue divided by the number of days in the period divided by throughput (bpd). We calculate storage revenue per barrel on shell capacity as revenue divided by number of months in the period divided by shell capacity barrels. Investors and analysts use these financial measures to help analyze and compare companies in the industry on the basis of operating performance. These financial measures should not be considered as an alternative to segment operating income, revenues and operating expenses or any other measure of financial performance presented in accordance with U.S. GAAP.

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Volumes. Terminalling throughput volumes increased 138,582 bpd, or 54%, in the 2013 Quarter compared to the 2012 Quarter primarily as a result of the completion of the Anacortes Rail Facility in September 2012, higher affiliate demand at our Martinez marine terminal due to a turnaround at Tesoro's Martinez refinery in the 2012 Quarter and higher affiliate and third-party demand at our Long Beach marine terminal. Pipeline transportation throughput volumes increased 1,247 bpd, or 1%, in the 2013 Quarter compared to the 2012 Quarter as a result of higher throughput volumes in the 2013 Quarter on the Salt Lake City short-haul pipelines.

Financial Results. Revenues increased $15.7 million, or 111%, to $29.9 million in the 2013 Quarter compared to $14.2 million in the 2012 Quarter primarily as a result of the new terminalling agreements that went into effect in connection with the Long Beach Assets Acquisition, the Anacortes Rail Facility Acquisition and the Martinez Marine Terminal Acquisition, which accounted for approximately $6.9 million, $5.7 million and $3.8 million, respectively, of the revenue increase compared to the 2012 Quarter. Our Predecessors did not record revenue for intercompany terminalling, storage and pipeline transportation services, therefore there was no revenue recognized on volumes throughput by Tesoro prior to the acquisitions. Further, the Anacortes Rail Facility did not have any throughput prior to being placed in service in September 2012.

Operating and maintenance expenses decreased $0.1 million, or 2%, to $6.1 million in the 2013 Quarter from $6.2 million in the 2012 Quarter primarily as a result of a $0.7 million decrease in environmental expense. Our Predecessors recognized environmental accruals for the Martinez Marine Terminal and Long Beach Assets in the 2012 Quarter, which were indemnified by Tesoro upon closing of the acquisitions. In addition, cost of purchased additives decreased $0.2 million compared to the 2012 Quarter. These decreases were partially offset by an increase of $1.1 million associated with operations at the Anacortes Rail Facility, which was placed in service in September 2012.

Depreciation and amortization expenses increased $1.1 million, or 52%, to $3.1 million in the 2013 Quarter from $2.0 million in the 2012 Quarter primarily attributable to $0.8 million in depreciation expense related to the Anacortes Rail Facility that was placed in service in September 2012.

General and administrative expense increased $0.3 million, or 48%, to $1.0 million in the 2013 Quarter compared to $0.7 million in the 2012 Quarter due to increased expenses for certain allocated employee related costs.

CAPITAL RESOURCES AND LIQUIDITY

Our primary cash requirements are for funding capital expenditures, meeting operational needs and paying distributions to our partners. The Partnership expects our ongoing sources of liquidity to include cash generated from operations, reimbursement by Tesoro for certain maintenance capital expenditures, borrowings under our amended and restated revolving credit facility (the "Revolving Credit Facility") and issuances of debt and additional equity securities. We believe that cash generated from these sources will be sufficient to meet our short-term working capital requirements, long-term capital expenditure requirements, acquisition-related requirements, debt servicing requirements and funding at least the minimum quarterly cash distributions. We intend to pay a quarterly distribution of at least $0.3375 per unit per quarter, which equates to $15.7 million per quarter, or $62.8 million per year, based on the number of common, subordinated and general partner units outstanding. We do not have a legal obligation to pay this distribution.

Under a shelf registration statement filed with the Securities and Exchange Commission ("SEC") in 2012, we have the ability to raise up to an additional $322.1 million. Additionally, we filed a shelf registration statement with the SEC on January 7, 2013 to provide the ability to raise an unlimited amount of common units through one or more prospectus supplements.

On January 14, 2013, we closed a registered public offering (the "January Offering") of 9,775,000 common units representing limited partner interests, at a public offering price of $41.70 per unit. We intend to use the net proceeds of $391.6 million to fund a portion of the consideration for the acquisition of the Northwest Products System and for general partnership purposes. In addition, on January 14, 2013, TLGP contributed $8.3 million in exchange for 199,490 general partner units to maintain a 2% general partnership interest.

On April 18, 2013, we declared a quarterly cash distribution of $0.49 per unit, or $1.96 per unit on an annualized basis, which will be paid on May 14, 2013, to unitholders of record on May 3, 2013. The total cash distribution to be paid is $24.0 million and includes amounts to be paid for IDRs. On February 14, 2013, we paid a quarterly cash distribution of $0.4725, or $1.89 per unit on an annualized basis, which totaled $22.9 million and included amounts paid for IDRs.

Overview

Our total debt at March 31, 2013 was comprised of the following (in thousands):

Debt, including current maturities:	March 31, 2013
Revolving Credit Facility	$ —
5.875% TLLP Senior Notes due 2020	350,000
Capital lease obligations	7,747
Total Debt	$ 357,747

Revolving Credit Facility

Effective January 4, 2013, we amended and restated our Revolving Credit Facility to increase commitments under the facility from $300.0 million to $500.0 million and to allow us to request that the loan availability be increased up to an aggregate of $650.0 million, subject to receiving increased commitments from the lenders. Further, the Revolving Credit Facility decreases our Eurodollar margin and base rate margins between 0.5% to 1.0%, depending on our leverage ratio, and includes a provision that allows a temporary increase in certain of our financial covenants in the event of a material acquisition. The Revolving Credit Facility is non-recourse to Tesoro, except for TLGP, and is guaranteed by all of our subsidiaries and secured by substantially all of our assets. Borrowings are available under the Revolving Credit Facility up to the total loan availability of the facility.

We had no borrowings and $0.3 million in letters of credit outstanding under the Revolving Credit Facility, resulting in a total unused loan availability of $499.7 million, or 99%, of the borrowing capacity as of March 31, 2013. The Revolving Credit Facility is scheduled to mature on December 31, 2017.

The Revolving Credit Facility, at March 31, 2013, was subject to the following expenses and fees:

Credit Facility	30 day Eurodollar (LIBOR) Rate	Eurodollar Margin	Base Rate	Base Rate Margin	Commitment Fee (unused portion)
TLLP Revolving Credit Facility (a)	0.20%	2.00%	3.25%	1.00%	0.375%

____

(a) We have the option to elect if the borrowings will bear interest at either a base rate plus the base rate margin, or a Eurodollar rate, for the applicable period, plus the Eurodollar margin at the time of the borrowing. The applicable margin varies based upon a certain leverage ratio, as defined by the Revolving Credit Facility. We also incur commitment fees for the unused portion of the Revolving Credit Facility at an annual rate. Letters of credit outstanding under the Revolving Credit Facility incur fees at the Eurodollar margin rate.

The Revolving Credit Facility and Senior Notes contain covenants that, among other things, limit or restrict the Partnership's ability (as well as the ability of our subsidiaries) to engage in certain activities. There have been no changes in these covenants from those described in the Annual Report on 10-K for the year ended December 31, 2012. We do not believe that these limitations will restrict our ability to pay distributions. Additionally, the Revolving Credit Facility contains covenants that require TLLP to maintain certain interest coverage and leverage ratios. We submit compliance certifications to the bank quarterly, and we were in compliance with our debt covenants as of March 31, 2013.

Cash Flow Summary

Components of our cash flows are set forth below (in thousands):

	Three Months Ended March 31,	
	2013	2012
Cash Flows From (Used In):		
Operating Activities	$ 29,704	$ 14,581
Investing Activities	(8,732)	(5,786)
Financing Activities	375,188	(6,106)
Increase in Cash and Cash Equivalents	$ 396,160	$ 2,689

Operating Activities. Net cash from operating activities increased $15.1 million to $29.7 million in the 2013 Quarter compared to $14.6 million for the 2012 Quarter. The increase in net cash from operating activities was primarily attributable to higher net income as a result of our commercial agreements executed in connection with the Acquisitions from Tesoro. Changes in working capital also contributed to the higher net cash from operating activities during the 2013 quarter, including a $5.8 million increase in other current liabilities related to accrued interest on our 5.875% TLLP Senior Notes due 2020 which were issued in September 2012. Interest on these notes is due on April 1 and October 1 of each year.

Investing Activities. Net cash used in investing activities for the 2013 Quarter increased $2.9 million to $8.7 million compared to $5.8 million in the 2012 Quarter. Higher capital expenditures in the 2012 Quarter included Predecessor spend related to the Anacortes Rail Facility. See "Capital Expenditures" below for a discussion of the various maintenance and expansion projects in the 2013 Quarter, including those reimbursed by Tesoro. The Sponsor reimbursement of $3.5 million included in net cash used in investing activities for the 2012 Quarter is the reimbursement for the gathering hub and pipeline project for the new Connolly station on our High Plains System.

Financing Activities. Net cash provided by financing activities for the 2013 Quarter was $375.2 million compared to net cash used in financing activities of $6.1 million for the 2012 Quarter. The net cash provided by financing activities in the 2013 Quarter included net proceeds of $391.6 million resulting from the January Offering and $8.3 million in net proceeds from the offering of general partner units to Tesoro. We paid quarterly cash distributions totaling $22.9 million in the 2013 Quarter, and we paid $3.0 million in financing costs during the 2013 Quarter.

Historically, the Predecessors' sources of liquidity included cash generated from operations and funding from Tesoro. Cash receipts were deposited in Tesoro's bank accounts and all cash disbursements were made from those accounts. The Sponsor contribution of $5.3 million included in cash used in financing activities for the 2012 Quarter was the funding of the net loss for the Predecessors less any non-cash contributions.

Capital Expenditures

The Partnership's operations are capital intensive, requiring investments to expand, upgrade or enhance existing operations as well as to maintain assets and ensure regulatory compliance. The cost estimates described below are subject to further review, analysis and permitting requirements and include estimates for capitalized interest and labor. Our capital requirements consist of maintenance and expansion capital expenditures. Maintenance capital expenditures include expenditures required to maintain equipment reliability and integrity and to address regulatory compliance. Expansion capital expenditures include expenditures to acquire or construct new assets and to expand existing facilities or services that may increase throughput capacity on our pipelines and in our terminals or increase storage capacity at our storage facilities. Tesoro reimburses us for projects covered under the omnibus agreement, which was most recently amended on November 15, 2012 (the "Second Amended Omnibus Agreement"), which provides for reimbursement of various projects in progress at the time the Partnership acquired the assets from Tesoro. In addition, Tesoro may reimburse us for certain capital expenditures as required by various other agreements between the Partnership and Tesoro.

Capital expenditures during the 2013 Quarter and 2012 Quarter were $10.2 million and $13.0 million, respectively. Capital expenditures for the 2012 Quarter include spending related to our Predecessors of $9.4 million. Our total 2013 expected capital expenditures include $90.0 million for both maintenance and expansion capital projects, which increased from $75.0 million primarily due to the High Plains reversal project discussed below. For the remainder of 2013, we estimate that total capital expenditures will be approximately $80.0 million for both maintenance and expansion capital projects, which includes projects to expand our crude oil gathering capabilities and terminalling capacity. We anticipate that these capital expenditures will be funded primarily with cash generated from operations, reimbursement by Tesoro for certain capital expenditures and borrowings under our Revolving Credit Facility.

The following table is a summary of our capital expenditures for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Expansion	$ 8,340	$ 11,918
Maintenance	1,896	1,064
Total Capital Expenditures	$ 10,236	$ 12,982

The following table is a summary of our capital expenditures for the three months ended March 31, 2012, disaggregated to present the results of operations of our Predecessors and of TLLP (in thousands):

	Tesoro Logistics LP (Partnership) (a)	Predecessors	Total Tesoro Logistics LP
Expansion	$ 3,629	$ 8,289	$ 11,918
Maintenance	(70)	1,134	1,064
Total Capital Expenditures	$ 3,559	$ 9,423	$ 12,982

Our full-year expected and 2013 Quarter actual capital expenditures are comprised of the following project categories at March 31, 2013:

Project Category	Percent of 2013 Quarter Capital Expenditures (a)	Percent of 2013 Expected Capital Expenditures
Expansion	81%	85%
Maintenance	19%	15%

(a) See "Non-GAAP Financial Measures" for information regarding the presentation of our disaggregated results of operations and exclusion of certain predecessor information.

Maintenance capital expenditures. Maintenance capital expenditures in the 2013 Quarter increased $0.8 million, or 78%, to $1.9 million compared to $1.1 million in the 2012 Quarter primarily related to various projects at the Martinez Crude Oil Marine Terminal and the High Plains System. A total of $1.2 million expended for projects at the Martinez Crude Oil Marine Terminal, Salt Lake City terminal and Long Beach marine terminal were reimbursed to us by Tesoro in the 2013 Quarter.

We estimate that our maintenance capital expenditures for the remainder of 2013 will be approximately $12.0 million. Our maintenance capital expenditures for the remainder of 2013, net of capital reimbursements from Tesoro, is estimated to be $5.0 million primarily related to enhancing leak detection on our Crude Oil Gathering assets and various modifications on our terminalling assets.

Expansion capital expenditures. Expansion capital expenditures in the 2013 Quarter decreased $3.6 million to $8.3 million compared to $11.9 million in the 2012 Quarter. Excluding 2012 Predecessor capital expenditures of $8.3 million related to the construction of the Anacortes Rail Facility, our expansion capital expenditures in the 2013 Quarter increased $4.7 million primarily related to growing the capabilities of our High Plains System and terminals. The expansion capital expenditures for our Terminalling, Transportation and Storage segment in the 2013 Quarter included expenditures for the expansion of throughput capacity and services at our Stockton and Vancouver terminals. We estimate that our expansion capital expenditures for the remainder of 2013 will be approximately $68.0 million.

The following discussion describes our expansion capital expenditures plan, which is subject to further review and analysis and includes estimates for capitalized interest and labor costs:

Our overall strategy in the Crude Oil Gathering segment is focused on growth projects in the Bakken Region that increase the utilization of our existing capacity, expand our pipeline gathering system, increase our pipeline capacity, add additional origins to and destinations from, our pipeline system and lower our overall costs. Our overall strategy in the Terminalling, Transportation and Storage segment is focused on projects that increase our terminalling volumes by expanding terminalling capacity and expand the services at several of our terminals.

Our expansion capital expenditures plan consists of the following projects (in millions):

	Expansion Capital Expenditures 2013 Quarter	Expected Capital Expenditures for Remainder of 2013	Expected In-service Date
OPERATING SEGMENTS			
CRUDE OIL GATHERING			
High Plains reversal project (a)	$ —	$ 20.0	2014
Various growth plan projects (b)	3.6	38.0	2013
CRUDE OIL GATHERING SEGMENT EXPANSION PROJECTS	$ 3.6	$ 58.0	
TERMINALLING, TRANSPORTATION AND STORAGE			
Stockton terminal expansion (c)	$ 1.4	$ 1.5	2013
Terminal expansion projects (d)	3.4	8.5	2013-2014
TERMINALLING, TRANSPORTATION AND STORAGE SEGMENT EXPANSION PROJECTS	4.8	10.0	
TOTAL EXPANSION PROJECTS	$ 8.4	$ 68.0	

____

(a) The High Plains reversal project is expected to drive higher throughput on the pipeline by optimizing the pipeline's capacity to meet shipper demand to transport crude oil from areas of increasing production to new outlets. The project is expected to cost approximately $35.0 million and be completed in 2014.

(b) Includes various projects to expand our pipeline gathering system and increase our ability to store and deliver volumes to Tesoro's North Dakota refinery and to third-party destinations.

(c) The Stockton terminal expansion will add storage capacity that will allow for an increase in volume delivered through the terminal for a total investment of approximately $11.5 million.

(d) The terminal expansion projects include approximately $12.0 million of capital in 2013 for projects to expand the throughput capacity and offer additional services at several of our terminals.

Environmental and Other Matters

Environmental Regulation. We are subject to extensive federal, state and local environmental laws and regulations. These laws, which change frequently, regulate the discharge of materials into the environment or otherwise relate to protection of the environment. Compliance with these laws and regulations may require us to remediate environmental damage from any discharge of petroleum or chemical substances from our facilities or require us to install additional pollution control equipment on our equipment and facilities. Our failure to comply with these or any other environmental or safety-related regulations could result in the assessment of administrative, civil, or criminal penalties, the imposition of investigatory and remedial liabilities, and the issuance of injunctions that may subject us to additional operational constraints.

Future expenditures may be required to comply with the federal, state and local environmental requirements for our various sites, including our storage facility, pipelines and refined products terminals. The impact of these legislative and regulatory developments, if enacted or adopted, could result in increased compliance costs and additional operating restrictions on our business, each of which could have an adverse impact on our financial position, results of operations and liquidity. Tesoro indemnifies us for certain of these costs as described in the Second Amended Omnibus Agreement.

Environmental Liabilities. Contamination resulting from spills of crude oil and refined products is not unusual within the petroleum refining, terminalling or pipeline industries. Historic spills along our pipelines, gathering systems and terminals as a result of past operations have resulted in contamination of the environment, including soils and groundwater. Site conditions, including soils and groundwater, are being evaluated at our properties where operations have resulted in releases of hydrocarbons and other wastes. A number of our properties have known hydrocarbon or other hazardous material contamination in the soil and groundwater. See our discussion of the Second Amended Omnibus Agreement below for more information regarding the indemnification of certain environmental matters.

Tesoro has been party to various litigation and contingent loss matters, including environmental matters, arising in the ordinary course of business. The outcome of these matters cannot always be accurately predicted, but our Predecessors have recognized historical liabilities for these matters based on estimates and applicable accounting guidelines and principles. These liabilities were based on engineering estimates, expected timing, extent of remedial actions required by governing agencies and experience gained from similar sites for which environmental assessments or remediation have been completed. It is possible that the estimates will change and that remediation costs could be adjusted as more information becomes available.

Under the Second Amended Omnibus Agreement, Tesoro indemnifies us for certain matters, including environmental, title and tax matters associated with the ownership of our assets at or before the closing of the Initial Offering and the subsequent acquisitions. With respect to assets that we acquired from Tesoro, indemnification for unknown environmental and title liabilities is limited to pre-closing conditions identified prior to the earlier of the date that Tesoro no longer controls our general partner or five years after the date of closing.

Under the Second Amended Omnibus Agreement, the aggregate annual deductible for each type of liability (unknown environmental liabilities or title matters) is $0.6 million, as of March 31, 2013, before we are entitled to indemnification in any calendar year in consideration of the initial assets and all subsequent acquisitions from Tesoro. In addition, with respect to the assets that we acquired from Tesoro, we have agreed to indemnify Tesoro for events and conditions associated with the ownership or operation of our assets that occur after the closing of the Initial Offering, and the subsequent acquisitions, and for environmental liabilities related to our assets to the extent Tesoro is not required to indemnify us for such liabilities.

IMPORTANT INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (including information incorporated by reference) includes and references "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, expectations regarding revenues, cash flows, capital expenditures and other financial items. These statements also relate to our business strategy, goals and expectations concerning our market position, future operations and profitability. We have used the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will," "would" and similar terms and phrases to identify forward-looking statements in this Quarterly Report on Form 10-Q, which speak only as of the date the statements were made.

Although we believe the assumptions upon which these forward-looking statements are made are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. The matters discussed in these forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and trends to differ materially from those made, projected, or implied in or by the forward-looking statements depending on a variety of uncertainties or other factors including, but not limited to:

- the suspension, reduction or termination of Tesoro's obligation under our commercial agreements and our operational services agreement;
- changes in global economic conditions and the effects of the global economic downturn on Tesoro's business and the business of its suppliers, customers, business partners and credit lenders;
- a material decrease in Tesoro's profitability;
- a material decrease in the crude oil produced in the Bakken Region;
- disruptions due to equipment interruption or failure at our facilities, Tesoro's facilities or third-party facilities on which Tesoro's business is dependent;
- changes in the expected benefits and timing of our transactions relating to our acquisitions from Tesoro and third parties including Chevron Pipe Line Company and Northwest Terminalling Company;
- changes in the expected timing, structure or benefits of TRMC’s pending acquisition of BP’s Southern California refining and marketing business, or the timing, value of assets and benefits from the anticipated offer from TRMC to us of the integrated logistics system to be acquired in that acquisition;
- the risk of contract cancellation, non-renewal or failure to perform by Tesoro's customers, and Tesoro's inability to replace such contracts and/or customers;

- Tesoro's ability to remain in compliance with the terms of its outstanding indebtedness;
- the timing and extent of changes in commodity prices and demand for Tesoro's refined products;
- actions of customers and competitors;
- changes in our cash flow from operations;
- state and federal environmental, economic, health and safety, energy and other policies and regulations, including those related to climate change and any changes therein, and any legal or regulatory investigations, delays or other factors beyond our control;
- operational hazards inherent in refining operations and in transporting and storing crude oil and refined products;
- earthquakes or other natural disasters affecting operations;
- changes in capital requirements or in execution of planned capital projects;
- the availability and costs of crude oil, other refinery feedstocks and refined products;
- changes in the cost or availability of third-party vessels, pipelines and other means of delivering and transporting crude oil, feedstocks and refined products;
- direct or indirect effects on our business resulting from actual or threatened terrorist incidents or acts of war;
- weather conditions affecting our or Tesoro's operations or the areas in which Tesoro markets its refined products;
- seasonal variations in demand for refined products;
- adverse rulings, judgments, or settlements in litigation or other legal or tax matters, including unexpected environmental remediation costs in excess of any accruals, which affect us or Tesoro;
- risks related to labor relations and workplace safety;
- changes in insurance markets impacting costs and the level and types of coverage available; and
- political developments.

Many of these factors, as well as other factors, are described in our filings with the SEC. All future written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the previous statements. We undertake no obligation to update any information contained herein or to publicly release the results of any revisions to any forward-looking statements that may be made to reflect events or circumstances that occur, or that we become aware of, after the date of this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. As we do not own the refined products or crude oil that are shipped through our pipelines, distributed through our terminals, or held in our storage facilities, and because all of our commercial agreements with Tesoro, other than our High Plains System transportation services agreement and our master terminalling services agreement, require Tesoro to bear the risk of any volume loss relating to the services we provide, we have minimal direct exposure to risks associated with fluctuating commodity prices. In addition, our commercial agreements with Tesoro are indexed for inflation and contain fuel surcharge provisions that are designed to substantially mitigate our exposure to increases in diesel fuel prices and the cost of other supplies used in our business. We do not intend to hedge our exposure to commodity risk related to imbalance gains and losses or to diesel fuel or other supply costs.

Interest Rate Risk

We utilize fixed-rate long-term debt obligations and other borrowings, which are subject to market risk from changes in interest rates. Changes in interest rates affect the interest expense we incur on our variable-rate debt, and the fair value of our fixed-rate debt. These changes also affect the rates used to discount liabilities, which could result in lower or higher asset retirement obligation accretion expense over time. The fair value of our fixed-rate long-term debt was estimated using quoted market prices, and the carrying value and fair value of our total debt were $357.7 million and $378.5 million, respectively, at March 31, 2013, and $354.0 million and $368.7 million, respectively, at December 31, 2012. Since the debt that we incur under our revolving credit facility bears interest at a variable rate, it exposes us to interest rate risk. Unless interest rates increase significantly in the future, our exposure to interest rate risk should be minimal. As of March 31, 2013, we had no borrowings under our revolving credit facility. Any change in interest rates would affect cash flows, but not the fair value of the debt we incur under our revolving credit facility.

We do not currently have in place any hedges or forward contracts to reduce our exposure to interest rate risks; however, we continue to monitor the market and our exposure, and in the future, we may enter into these transactions to mitigate risk. We believe in the short-term we have acceptable interest rate risk and continue to monitor the risk on our long-term obligations.

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation required by the Securities Exchange Act of 1934, as amended (“the Exchange Act”), under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Exchange Act as of the end of the period. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. Our disclosure controls and procedures are designed to provide reasonable assurance that the information that we are required to disclose in reports we file under the Exchange Act is accumulated and communicated to management, as appropriate.

During the quarter ended March 31, 2013, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Although the Partnership may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we do not believe that we are a party to any litigation that will have a material adverse impact on our financial condition, results of operations or statements of cash flows. We are not aware of any significant legal or governmental proceedings against us, or contemplated to be brought against us.

ITEM 1A. RISK FACTORS

There have been no significant changes from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 5. OTHER INFORMATION

On May 3, 2013, Tesoro Logistics Operations LLC (the "Operating Company"), one of our subsidiaries, entered into the Amended and Restated Master Terminalling Services Agreement with Tesoro Refining & Marketing Company LLC and Tesoro Alaska Company (collectively referred to in this paragraph as the "Tesoro Parties"). This agreement supersedes the 10-year Master Terminalling Services Agreement dated February 22, 2013, under which the Tesoro Parties pay the Operating Company fees for providing terminalling services at the Operating Company's eight refined products terminals. The amendment increased the Stockton terminal minimum throughput by 8,400 barrels per day and made other technical corrections.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description of Exhibit
2.1	Amendment to Northwest Products System - Terminal Interests Asset Sale and Purchase Agreement, dated as of March 28, 2013, by and between Tesoro Logistics Operations LLC and Northwest Terminalling Company (incorporated by reference herein to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on April 1, 2013, File No. 1-35143).
2.2	Amendment to Northwest Products Pipeline System Asset Sale and Purchase Agreement, dated as of March 28, 2013, by and between Tesoro Logistics Northwest Pipeline LLC and Chevron Pipe Line Company (incorporated by reference herein to Exhibit 2.2 to the Company's Current Report on Form 8-K filed on April 1, 2013, File No. 1-35143).
10.1	Second Amended and Restated Trucking Transportation Services Agreement, dated as of March 26, 2013, among Tesoro Logistics Operations, LLC and Tesoro Refining & Marketing Company LLC (incorporated by reference herein to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 1, 2013, File No. 1-35143).
*10.2	Second Amended and Restated Master Terminalling Services Agreement, dated as of May 3, 2013, among Tesoro Refining and Marketing Company LLC, Tesoro Alaska Company and Tesoro Logistics Operations LLC.
*31.1	Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**101.INS	XBRL Instance Document
**101.SCH	XBRL Taxonomy Extension Schema Document
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

____

* Filed herewith
** Submitted electronically herewith

In accordance with Rule 402 of Regulation S-T, the XBRL information in Exhibit 101 to this Quarterly Report on Form 10-Q will not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, and will not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as will be expressly set forth by specific reference in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TESORO LOGISTICS LP

		By:	Tesoro Logistics GP, LLC Its general partner
Date:	May 8, 2013	By:	/s/ GREGORY J. GOFF Gregory J. Goff Chairman of the Board of Directors and Chief Executive Officer
Date:	May 8, 2013	By:	/s/ G. SCOTT SPENDLOVE G. Scott Spendlove Director, Vice President and Chief Financial Officer

Exhibit 10.2

SECOND AMENDED AND RESTATED
MASTER TERMINALLING SERVICES AGREEMENT

This Second Amended and Restated Master Terminalling Services Agreement (the "Agreement") is executed as of May 3, 2013, to be effective as of the Effective Date, by and among Tesoro Refining & Marketing Company LLC, a Delaware limited liability company ("TRMC"), Tesoro Alaska Company, a Delaware corporation ("TAK" and, together with TRMC, "Tesoro") and Tesoro Logistics Operations LLC, a Delaware limited liability company ("TLO").

RECITALS

WHEREAS, by virtue of their indirect ownership interests in Tesoro Logistics LP, TLO's parent entity (the "Partnership"), each of TAK and TRMC have an economic interest in the financial and commercial success of the Partnership and its operating subsidiary, TLO; and

WHEREAS, the Parties (as defined below and in the case of TRMC, its predecessor corporate entity) entered into an Amended and Restated Master Terminalling Services Agreement as of February 22, 2013, and desire to amend and restate that agreement in its entirety as set forth herein to memorialize the terms of their ongoing commercial relationship.

NOW, THEREFORE, in consideration of the covenants and obligations contained herein, the parties to this Agreement hereby agree as follows:

1. DEFINITIONS

Capitalized terms used throughout this Agreement shall have the meanings set forth below, unless otherwise specifically defined herein.

"Additive Facilities" has the meaning set forth in Section 17(a).

"Additized Gasoline" has the meaning set forth in Section 18(a).

"Adjusted Minimum Volume Commitment" means Tesoro's Minimum Throughput Commitment, adjusted by deducting the applicable Stipulated Volume for each Terminal that is no longer subject to this Agreement at any time.

"Agreement" has the meaning set forth in the Preamble.

"Ancillary Services" means the following services to be provided by TLO to Tesoro: ethanol receipt (rail and truck), ethanol storage, ethanol blending, generic gasoline additization, jet additization, jet certification, lubricity/conductivity additization, Product receipt (barge), proprietary additive additization, red dye additization, transmix loading (truck) and winter flow improver additization.

"Applicable Law" means any applicable statute, law, regulation, ordinance, rule, determination, judgment, rule of law, order, decree, permit, approval, concession, grant, franchise, license, requirement, or any similar form of decision of, or any provision or condition of any permit, license or other operating authorization issued by any Governmental Authority having or asserting jurisdiction over the matter or matters in question, whether now or hereafter in effect.

"Barrel" means a volume equal to 42 U.S. gallons of 231 cubic inches each, at 60 degrees Fahrenheit under one atmosphere of pressure.

"Base Gasoline" has the meaning set forth in Section 18(a).

"Blending Instructions" has the meaning set forth in Section 21(c).

"bpd" means Barrels per day.

"Business Day" means a day, other than a Saturday or Sunday, on which banks in New York, New York are open for the general transaction of business.

"Capacity Resolution" has the meaning set forth in Section 32(c).

"Carrier" means a third-party agent or contractor hired by Tesoro, who is in the business of transporting Products via tank trucks.

"Commencement Date" has the meaning set forth in Section 2.

"Confidential Information" means all confidential, proprietary or non-public information of a Party, whether set forth in writing, orally or in any other manner, including all non-public information and material of such Party (and of companies with which such Party has entered into confidentiality agreements) that another Party obtains knowledge of or access to, including non-public information regarding products, processes, business strategies and plans, customer lists, research and development programs, computer programs, hardware configuration information, technical drawings, algorithms, know-how, formulas, processes, ideas, inventions (whether patentable or not), trade secrets, schematics and other technical, business, marketing and product development plans, revenues, expenses, earnings projections, forecasts, strategies, and other non-public business, technological, and financial information.

"Curtailment Fee" has the meaning set forth in Section 30(b).

"DCA" has the meaning set forth in Section 18(a).

"Effective Date" means May 1, 2013.

"EPA" has the meaning set forth in Section 14(a).

"Ethanol Services" has the meaning set forth in Section 21(a).

"Excess Amounts" means, for any Month, the aggregate volumes throughput by Tesoro in excess of the Minimum Throughput Commitment, multiplied by the weighted average Terminalling Service Fee paid by Tesoro during such Month.

“Extension Period” has the meaning set forth in Section 3.

“First Offer Period” has the meaning set forth in Section 34(b).

“Force Majeure” means circumstances not reasonably within the control of TLO and which, by the exercise of due diligence, TLO is unable to prevent or overcome that prevent performance of TLO’s obligations, including: acts of God, strikes, lockouts or other industrial disturbances, wars, riots, fires, floods, storms, orders of courts or Governmental Authorities, explosions, terrorist acts, breakage, accident to machinery, equipment, storage tanks or lines of pipe, inability to obtain or unavoidable delays in obtaining material or equipment and other similar events.

“Force Majeure Notice” has the meaning set forth in Section 31(a).

“Force Majeure Period” has the meaning set forth in Section 31(a).

“Governmental Authority” means any federal, state, local or foreign government or any provincial, departmental or other political subdivision thereof, or any entity, body or authority exercising executive, legislative, judicial, regulatory, administrative or other governmental functions or any court, department, commission, board, bureau, agency, instrumentality or administrative body of any of the foregoing.

“Initial Term” has the meaning set forth in Section 3.

“LAC” has the meaning set forth in Section 18(a).

“Minimum Throughput Commitment” means the aggregate Stipulated Volume (on a monthly average basis) in bpd as set forth for all Terminals on Schedule A attached hereto; provided however, that the Minimum Throughput Commitment during the Month in which the Commencement Date occurs shall be prorated in accordance with the ratio of the number of days including and following the Commencement Date in such Month to the total number of days in such Month.

“Month” means a calendar month.

“Notice Period” has the meaning set forth in Section 30(a).

“Offer Period” has the meaning set forth in Section 32(g).

“OPIS” has the meaning set forth in Section 8(a).

“Partnership” has the meaning set forth in the Recitals of this Agreement.

“Partnership Change of Control” means Tesoro Corporation ceases to possess, directly or indirectly, the power to direct or cause the direction of the management and policies of the general partner of the Partnership, whether through ownership of voting securities, by contract, or otherwise.

"Party" or "Parties" means that each of TAK, TRMC and TLO is a "Party" and collectively are the "Parties" to this Agreement.

"Person" means any individual, partnership, limited partnership, joint venture, corporation, limited liability company, limited liability partnership, trust, unincorporated organization or Governmental Authority or any department or agency thereof.

"Product" or "Products" means the petroleum products, ethanol or biofuels, Transmix and intermediate products described herein as being handled under this Agreement.

"Receiving Party Personnel" has the meaning set forth in Section 37(d).

"Red Dye" has the meaning set forth in Section 19(a).

"Refineries" means the Tesoro refineries located in Anacortes, Washington; Kenai, Alaska; Mandan, North Dakota; Salt Lake City, Utah; and Martinez and Los Angeles, California.

"Restoration" has the meaning set forth in Section 32(b).

"Right of First Refusal" has the meaning set forth in Section 32(g).

"Shortfall Payment" has the meaning set forth in Section 7(b).

"Stipulated Volume" means the stipulated volume in bpd as set forth for each Terminal on Schedule A attached hereto.

"Storage Contract" has the meaning set forth in Section 32(g).

"Subject Tank" has the meaning set forth in Section 32(g).

"Suspension Notice" has the meaning set forth in Section 30(a).

"Tank Heels" consist of the minimum quantity of Product which either (a) must remain in a tank during all periods when the tank is available for service to keep the tank in regulatory compliance or (b) is necessary for physical operation of the tank.

"TAK" has the meaning set forth in the Preamble.

"Term" has the meaning set forth in Section 3.

"Terminalling Right of First Refusal" has the meaning set forth in Section 34(b).

"Terminalling Service Fee" means, for a particular Terminal, for any Month during the Term, the total fee per Barrel of throughput paid by Tesoro during that Month for terminalling, dedicated storage and Ancillary Services at that Terminal.

"Terminals" means the Terminals set forth on Schedule A attached hereto.

"Terminal Service Order" has the meaning set forth in Section 5(a).

Termination Notice" has the meaning set forth in Section 31(a).

"Tesoro" has the meaning set forth in the Preamble.

"Tesoro Termination Notice" has the meaning set forth in Section 31(b).

"TLO" has the meaning set forth in the Preamble.

"Transmix" has the meaning set forth in Section 13.

"TRMC" has the meaning set forth in the Preamble.

2. COMMENCEMENT DATE

The Parties agree that the "Commencement Date" was April 26, 2011.

3. TERM

The initial term of this Agreement shall commence on the Commencement Date and shall continue through April 30, 2021 (the "Initial Term"); provided, however, that Tesoro may, at its option, extend the Initial Term for up to two (2) renewal terms of five (5) years each (each, an "Extension Period") by providing written notice of its intent to TLO no less than three hundred sixty-five (365) calendar days prior to the end of the Initial Term or the then-current Extension Period. The Initial Term, and any extensions of this Agreement as provided above, shall be referred to herein as the "Term."

4. MINIMUM THROUGHPUT COMMITMENT

(a) During the Term and subject to the terms and conditions of this Agreement, Tesoro shall throughput the Minimum Throughput Commitment at the Terminals, and TLO shall make available to Tesoro commingled storage and throughput capacity at each respective Terminal, sufficient to allow Tesoro to throughput the Stipulated Volume of Products at such Terminal.

(b) Allocation of storage and throughput capacity for separate Products at each Terminal shall be in accordance with current practices, or as otherwise may be set forth in a Terminal Service Order, as described below.

(c) Tesoro may throughput volumes in excess of its Minimum Throughput Commitment, up to the then-available capacity of each Terminal, net of any third-party commitments, as determined by TLO at any time, which allocation of any excess capacity shall be in accordance with current practices, or as otherwise may be set forth in a Terminal Service Order, as described below.

(d) In the event at any time this Agreement is terminated as to one or more Terminals, as provided herein, then the Minimum Throughput Commitment shall thereafter be adjusted to be the Adjusted Minimum Volume Commitment.

5. TERMINAL SERVICE ORDERS

(a) In addition to the throughput subject to the Minimum Volume Commitment set forth in this Agreement, TLO and Tesoro may enter into terminal service orders substantially in the form attached hereto as Exhibit 1 (each, a "Terminal Service Order"). Upon a request by Tesoro pursuant to this Agreement or as deemed necessary or appropriate by TLO in connection with the services to be delivered pursuant hereto, TLO shall generate a Terminal Service Order to set forth the specific terms and conditions for providing the applicable services described therein and the applicable fees to be charged for such services. No Terminal Service Order shall be effective until fully executed by both TLO and Tesoro.

(b) Items available for inclusion on a Terminal Service Order include, but are not limited to, the following:

(i) allocation of storage and throughput capacity for separate Products at each Terminal, other than pursuant to current practices;

(ii) per-Barrel fees for the volumes Tesoro throughputs at the Terminals;

(iii) if dedicated storage tanks are to be utilized and the fees payable by Tesoro therefor;

(iv) any allocation of excess capacity, other than pursuant to current practices;

(v) fees to be paid by Tesoro for the use of any allocation of excess capacity;

(vi) any Ancillary Services for each Terminal and the fees for such Ancillary Services;

(vii) any surcharge not otherwise imposed by TLO pursuant to Section 6;

(viii) any capital expenditures and related costs subject to reimbursement pursuant to Section 9;

(ix) any cleaning of tanks or the conversion of a dedicated tank to storage of a different Product pursuant to Section 9 and the fees related thereto;

(x) any Transmix handling fees pursuant to Section 13;

(xi) any special or proprietary additive injection services or higher additive injection rates and the fees for such services pursuant to Sections 16 and 18;

(xii) any fees to be paid by Tesoro to TLO for lubricity and conductivity additive and injection services (including DCA injection) provided pursuant to Section 17 and 18 for Low Sulfur Diesel/Ultra Low Sulfur Diesel Fuel delivered to trucks for Tesoro's account;

(xiii) any fees for the operation of special additive equipment described in Section 20;

(xiv) the receipt, storage and blending of ethanol into Tesoro's gasoline pursuant to Section 21;

(xv) the reimbursement of any costs incurred by TLO for periodic software updates, replacement of loading systems or software or other upgrades pursuant to Section 22; and

(xvi) any dedicated storage to be provided and applicable fees therefor.

(c) Any fees set forth in this Agreement and any Terminal Service Order shall be increased on July 1 of each year of the Term, by a percentage equal to the greater of zero or the positive change in the CPI-U (All Urban Consumers), as reported by the U.S. Bureau of Labor Statistics.

(d) In case of any conflict between the terms of this Agreement and the terms of any Terminal Service Order, the terms of the applicable Terminal Service Order shall govern.

6. SURCHARGES

If, during the Term, any existing laws or regulations are changed or any new laws or regulations are enacted that require TLO to make substantial and unanticipated expenditures (whether capitalized or otherwise) with respect to the Terminals, TLO may impose a monthly surcharge, as set forth in a Terminal Service Order, to cover Tesoro's pro rata share of the cost of complying with these laws or regulations, based upon the percentage of Tesoro's use of the services or facilities impacted by such new laws or regulations. TLO and Tesoro shall use their reasonable commercial efforts to comply with these laws and regulations, and shall negotiate in good faith to mitigate the impact of these laws and regulations and to determine the level of the monthly surcharge.

7. PAYMENT; SHORTFALL PAYMENTS

(a) TLO shall invoice Tesoro on a monthly basis and Tesoro shall pay all amounts due under this Agreement and any Terminal Service Order (including Shortfall Payments and Curtailment Fees, each as defined herein) no later than ten (10) calendar days after Tesoro's receipt of TLO's invoices. Any past due payments owed by Tesoro to TLO shall accrue interest, payable on demand, at the rate of eight percent (8%) per annum from the due date of the payment through the actual date of payment.

(b) If, during any Month during the Term, Tesoro throughputs aggregate volumes less than the Minimum Throughput Commitment for such Month, then Tesoro shall pay TLO an amount (a "Shortfall Payment") for any shortfall. Shortfall Payments shall be equal to the weighted average Terminalling Service Fee paid by Tesoro during that Month across all of the Terminals, multiplied by the aggregate monthly shortfall across all Terminals. The dollar amount of any Shortfall Payment paid by Tesoro shall be posted as a credit to Tesoro's account and may be applied against any Excess Amounts owed by Tesoro during any of the succeeding three (3) Months. For informational purposes only, attached as Exhibit 2 hereto is a sample calculation demonstrating the Shortfall Payment and its application. Credits will be applied in the order in which such credits accrue and any remaining portion of the credit that is not used by Tesoro during the succeeding three (3) Months shall expire (*e.g.*, a credit that accrues in January will be available in February, March and April, will expire at the end of April, and must be applied prior to applying any credit which accrues in February).

(c) If at any time during the Term, any tank, rack or other equipment or facility of TLO that is dedicated to Tesoro or otherwise being used to provide services hereunder, is removed from service for reasons other than routine repair and maintenance, and if removal of such tank, rack or other equipment or facility from service restricts Tesoro from being able to throughput its Stipulated Volume and receive associated Ancillary Services at the Terminal where such tank, rack or other equipment or facility is located, then until such tank, rack or other equipment or facility is restored to service, Tesoro's Minimum Throughput Commitment shall be reduced by the difference between the Stipulated Volume and the amount that Tesoro can effectively throughput at such location without restriction until such tank, rack or other equipment or facility is restored to service.

8. VOLUME LOSSES

(a) With respect only to the Anchorage, Boise, Burley, Stockton and Vancouver Terminals and on a per Terminal basis, not based on the aggregate of all Terminals, TLO shall bear the risk of any actual volume losses of each Product to the extent that such losses exceed 0.25% of the volumes of such Product received at the Terminal, to be pro rated among users of such Terminal, during any Month during the Term. Volumes and losses of each Product shall be determined and accounted for as of the end of each Month. To the extent that actual losses of any Product are less than 0.25% during any particular Month, Tesoro shall repurchase from TLO the difference between the actual loss and the 0.25% allowance at a price per Barrel for that Product as reported by the Oil Price Information Service ("OPIS") using the monthly average OPIS unbranded contract rack posting for that Product during the Month in which the volume difference was accounted for. **All such sales shall be "AS IS", "WHERE IS", without any warranty, express or implied, including warranties of merchantability, fitness or title, all of which are expressly excluded**. If volume losses of any Product exceed 0.25% during any particular Month, TLO shall pay Tesoro for the difference between the actual loss and the 0.25% allowance at a price per Barrel for that Product as reported by OPIS using the monthly average OPIS unbranded contract rack posting for that Product during the Month in which the volume difference was accounted for. Deliveries on Saturday, Sunday or federal holidays shall be excluded from the calculation for the applicable Month.

(b) For all other Terminals, TLO shall have no obligation to measure volume gains and losses and shall have no liability whatsoever for physical losses, except if such losses are caused by the gross negligence or willful misconduct of TLO, as further described in Section 27 herein.

9. REIMBURSEMENT

(a) Tesoro shall reimburse TLO for: (i) the actual cost of any regulatory fees incurred by TLO based on Tesoro's proportionate share of the actual volumes Tesoro throughputs based upon the percentage of Tesoro's use of the services or facilities impacted by regulatory fees; (ii) the actual cost of any capital expenditures that TLO agrees to make upon Tesoro's request pursuant to a Terminal Service Order to provide services hereunder, other than capital expenditures required for TLO to continue to provide those services specified hereunder; and (iii) the actual cost of any third-party fees, including port fees, incurred in connection with carrying out the terms of this Agreement or any Terminal Service Order.

(b) If cleaning of any tanks is performed by TLO at the specific request of Tesoro, a Terminal Service Order shall provide for Tesoro to bear (or reimburse TLO) for all costs to clean, degas or otherwise prepare the tank(s) including, without limitation, the cost of removal, processing, transportation, disposal, of all waste and the cost of any taxes or charges TLO may be required to pay in regard to such waste. For any tanks that are dedicated to Tesoro for segregated storage of Tesoro's Products as set forth in any Terminal Service Order, Tesoro agrees to reimburse TLO for the reasonable cost of changes necessary to return the segregated storage tanks to TLO on termination of their dedication for segregated storage under this Agreement or any Purchase order, in the same condition as originally received less normal wear and tear. If Tesoro requests that any such dedicated tank be converted to storage of a different Product, then a Purchase order shall provide for Tesoro to be responsible for reimbursing TLO for all costs of such conversion, including all costs to clean, degas or otherwise prepare the tank(s) including, without limitation, the cost of removal, processing, transportation, disposal, of all waste and the cost of any taxes or charges TLO may be required to pay in regard to such waste. Tesoro shall not be responsible to TLO for any throughput fees and dedicated tank storage fees associated with any dedicated storage tanks taken out of service during the period that such tank is out of service.

(c) All of the foregoing reimbursements shall be made in accordance with the payment terms set forth in Section 7(a) herein.

10. CUSTODY TRANSFER AND TITLE

(a) Pipeline

(i) Receipts. For Product received into a Terminal by pipeline, custody of the Product shall pass to TLO at the flange where it enters the Terminal's receiving line. For receipts of Product at a Terminal rack at Mandan, Salt Lake City or Wilmington, custody shall transfer at the point where the pipeline from the Refinery crosses onto the property controlled by TLO.

(ii) Deliveries. For Product delivered by a Terminal into pipeline, custody of the Product shall pass to Tesoro at the flange where it exits the Terminal's delivery line.

(b) Rail Receipts. For Product received by rail, custody shall pass to TLO when the locomotive used to transfer Tesoro's rail cars to the Terminal is uncoupled from such rail cars at the Terminal.

(c) Truck. For receipts and deliveries to or from trucks, custody shall pass at the flange where the hoses at TLO's facility interconnect with the truck.

(d) Marine. For receipts and deliveries to or from marine vessel at Vancouver, custody shall pass at the flange where TLO's facility interconnects with the hoses connected to the marine vessel; for receipts and deliveries to or from marine vessel at Anchorage, custody shall pass at the flange where TLO's facility interconnects with the Port of Anchorage Valve Yard.

(e) General. Upon re-delivery of any Product to Tesoro's account, Tesoro shall become solely responsible for any loss, damage or injury to person or property or the environment, arising out of transportation, possession or use of such Product after transfer of custody and the loss allowance provisions hereof shall apply to Product while in TLO's custody. Title to all Tesoro's Product received in the Terminals shall remain with Tesoro at all times. Both Parties acknowledge that this Agreement and any Terminal Service Orders represent a bailment of Products by Tesoro to TLO and not a consignment of Products, it being understood that TLO has no authority hereunder to sell or seek purchasers for the Products of Tesoro, except as provided in Section 8 above and Section 13 below. Tesoro hereby warrants that it shall, at all times, have good title to and the right to deliver, throughput, store and receive Products pursuant to the terms of this Agreement or any applicable Terminal Service Order.

11. PRODUCT QUALITY

(a) Tesoro warrants that all Products delivered under this Agreement or any Purchaser Order shall meet the latest applicable pipeline specifications or otherwise mutually agreed upon specifications for that Product upon receipt at the applicable Terminal and contain no deleterious substances or concentrations of any contaminants that may make it or its components commercially unacceptable in general industry application. Tesoro shall not deliver to any of the Terminals any Products which: (i) would in any way be injurious to any of the Terminals; (ii) would render any of the Terminals unfit for the proper storage of similar Products; (iii) would contaminate or otherwise downgrade the quality of the Products stored in commingled storage; (iv) may not be lawfully stored at the Terminals; or (v) otherwise do not meet applicable Product specifications for such Product that are customary in the location of the Terminal. If, however, there are Products that do not have such applicable specifications, the specifications shall be mutually agreed upon by the Parties. Should Tesoro's commingled Products not meet or exceed the minimum quality standards set forth in this Agreement or any applicable Terminal Service Order, Tesoro shall be liable for all loss, damage and cost incurred thereby, including damage to Products of third parties commingled with Tesoro's unfit Products.

(b) TLO shall have the right to store compatible Products received for Tesoro's account with Products belonging to TLO or third parties in TLO's commingled storage tanks. TLO shall handle Tesoro's fungible Products in accordance with TLO's prevailing practices and procedures for handling such Products. The quality of all Products tendered into commingled storage for Tesoro's account shall be verified either by Tesoro's refinery analysis or supplier's certification, such that Products so tendered shall meet TLO's Product specifications. All costs for such analysis shall be borne solely by Tesoro. TLO shall have the right to sample any Product tendered to the Terminals hereunder. The cost of such sampling shall be borne solely by TLO. All Products returned to Tesoro shall meet or exceed Product specifications in effect on the date the Products are delivered to Tesoro. Notwithstanding any other provision herein, any and all Products that leave the Terminals shall meet all relevant ASTM, EPA, federal and state specifications, and shall not leave the Terminals in the form of a sub-octane grade Product.

(c) TLO shall exercise reasonable care to ensure that all Products delivered by third parties into commingled storage with Tesoro's Products meet applicable Product specifications for such Product that are customary in the location of the Terminal. In the event that Tesoro's Products are commingled with third-party Products that do not meet or exceed the minimum quality standards set forth in this Agreement or any Terminal Service Order, TLO shall be liable for all loss, damage and cost incurred thereby.

12. MEASUREMENT

All quantities of Products received or delivered by or into truck, rail, or marine vessel shall be measured and determined based upon the meter readings at each Terminal, as reflected by delivery tickets or bills of lading, or if such meters are unavailable, by applicable calibration tables. All quantities of Products received and delivered by pipeline at each Terminal shall be measured and determined based upon the meter readings of the pipeline operator, as reflected by delivery tickets, or if such meters are unavailable, by applicable calibration tables. Deliveries to a Terminal rack at Mandan, Salt Lake City or Wilmington from a Refinery shall be deemed to be the same as the corresponding volumes delivered contemporaneously from the Terminal rack. Deliveries by book transfer shall be reflected by entries in the books of TLO. All quantities shall be adjusted to net gallons at 60° F in accordance with ASTM D-1250 Petroleum Measurement Tables, or latest revisions thereof. Meters and temperature probes shall be calibrated according to applicable API standards. Tesoro shall have the right, at its sole expense, and in accordance with rack location procedure, to independently certify such calibration. Storage tank gauging shall be performed by TLO's personnel. TLO's gauging shall be deemed accurate unless challenged by an independent certified gauger. Tesoro may perform joint gauging at its sole expense with TLO's personnel at the time of delivery or receipt of Product, to verify the amount involved. If Tesoro should request an independent gauger, such gauger must be acceptable to TLO and such gauging shall be at Tesoro's sole expense.

13. PRODUCT DOWNGRADE AND INTERFACE

Product downgraded as a result of ordinary Terminal or pipeline operations including line flushing, rack meter provings or other necessary Terminals operations shall not constitute losses for which TLO is liable to Tesoro. TLO shall account for the volume of Product downgraded, and Tesoro's inventory of Products and/or interface shall be adjusted, provided that, in some cases interface volume ("Transmix") received shall be ratably shared between Tesoro and other customers receiving Products in the same shipment or stored in commingled storage. Tesoro shall remove its Transmix upon notice from TLO and shall be subject to applicable Transmix handling fees upon its removal, as provided in a Terminal Service Order. If Transmix is not removed within fifteen (15) Business Days after notification, TLO shall have the right to sell such Transmix at market rates and return any proceeds to Tesoro, less applicable Transmix handling fees and delivery costs in effect at the time of such sale.

14. PRODUCT DELIVERIES, RECEIPTS AND WITHDRAWALS

(a) All supervised deliveries, receipts and withdrawals hereunder shall be made within the normal business hours of each Terminal and at such times as may be required by Tesoro upon prior notice and approval by TLO, all in accordance with the agreed-upon scheduling. Unsupervised deliveries, receipts and withdrawals shall be made only with TLO's prior approval and in strict accordance with TLO's current operating procedures for the Terminals. Tesoro warrants that all vehicles permitted to enter the Terminals on behalf of Tesoro shall meet all requirements and standards promulgated by applicable regulatory authority including the Department of Transportation, the Occupational Safety and Health Administration, and the Environmental Protection Agency (the "EPA"). Tesoro further warrants that it shall only send to the Terminals those employees, agents and other representatives acting on behalf of and at Tesoro's direction who have been properly instructed as to the characteristics and safe hauling methods associated with the Products to be loaded and hauled. Tesoro further agrees to be responsible to TLO for the performance under this Agreement or any Terminal Service Order by its agents and/or representatives receiving or delivering Products at the Terminals.

(b) Tesoro shall withdraw from the Terminals only those Products that it is authorized to withdraw hereunder. Tesoro shall neither duplicate nor permit the duplication of any loading device (*i.e.,* card lock access) provided hereunder. Tesoro shall be fully and solely responsible for all Products loaded through the use of the loading devices issued to Tesoro in accordance with this Agreement or pursuant to any Terminal Service Order; *provided, however*; that Tesoro shall not have any responsibility or liability hereunder in the event that the load authorization system provided hereunder fails or malfunctions in any way unless a credit department override is provided, which authorizes Tesoro to load the Products.

(c) Both Parties shall abide by all federal, state and local statutes, laws and ordinances and all rules and regulations which are promulgated by TLO and which are either furnished to Tesoro or posted at the Terminals, with respect to the use of the Terminals as herein provided. It is understood and agreed by Tesoro that these rules and regulations may be changed, amended or modified by TLO at any time. All changes, amendments and modifications shall become binding upon Tesoro ten (10) days following the posting of a copy at the affected Terminals or the receipt by Tesoro of a copy, whichever occurs sooner.

(d) For all purposes hereunder, Tesoro's jobbers, distributors, Carriers, haulers and other customers designated in writing or otherwise by Tesoro to have loading privileges under this Agreement or any Terminal Service Order or having possession of any loading device furnished to Tesoro pursuant to this Agreement or any Terminal Service Order, together with their respective officers, servants and employees, shall, when they access the Terminals, be deemed to be representatives of Tesoro.

15. DELIVERIES INTO TRANSPORT TRUCKS

Prior to transporting any Products loaded into transport trucks at the Terminals, TLO shall make or cause to be made, the following certifications on the delivery receipt or bill of lading covering the Products received:

> "If required by 49 CFR 172.204, this is to certify that the above-named materials are properly classified, described, packaged, marked and labeled, and are in proper condition for transportation according to the applicable regulations of the Department of Transportation. Carrier hereby certifies that the cargo tank used for this shipment is a proper container for the commodity loaded therein and complies with Department of Transportation specifications and certifies that cargo tank is properly placarded and marked to comply with regulations pertaining to hazardous materials."

TLO may require each Carrier coming into the Terminals to expressly agree in writing to be bound by the provisions of a carrier access agreement with respect to withdrawals and loading of Products hereunder or thereunder, to conduct its operations at the Terminals in a safe manner, in accordance with all Applicable Law.

16. ADDITIZATION OPTIONS

At each Terminal, TLO shall provide equipment for the injection of generic additives, as provided below. Subject to the other provisions set forth herein, and the availability of suitable space in a Terminal and its equipment, Tesoro shall have the option of installing its own proprietary additive systems at the Terminals which TLO shall operate, or utilizing the generic additive service provided by TLO, or a combination of both. Tesoro shall designate pursuant to a Terminal Service Order which additive injection service it desires. TLO shall be responsible for providing generic additives as provided herein, and Tesoro shall be responsible for providing any special or proprietary additives requested by Tesoro.

17. LUBRICITY AND CONDUCTIVITY ADDITIVE

(a) TLO owns, maintains and operates diesel lubricity and conductivity additive injection facilities (the "Additive Facilities") at each of the Terminals. TLO shall continue to maintain and operate such Additive Facilities in accordance with customary industry standards during the Term or pursuant to an applicable Terminal Service Order, including all required reporting and record keeping prescribed by Applicable Law.

(b) During the Term or pursuant to an applicable Terminal Service Order, TLO shall arrange for purchase and delivery of any and all required lubricity and conductivity additive for injection through the Additive Facilities at the Terminals.

(c) During the Term or pursuant to an applicable Terminal Service Order, TLO shall inject into all Ultra Low Sulfur Diesel delivered to Tesoro at the Terminals an amount of lubricity and conductivity additive that TLO determines to be sufficient to comply with current ASTM diesel lubricity and conductivity specifications. TLO shall, upon request, provide Tesoro with documentation of additive specifications and additive injection, which TLO shall keep on file at each Terminal.

18. DCA ADDITIVE INJECTION

(a) All gasoline Product leaving the Terminals shall be additized ("Additized Gasoline"). As an exception, TLO shall accommodate a request from Tesoro to lift base gasoline from the Terminals. In that case, the bill of lading issued by TLO shall label all such Product as base gasoline ("Base Gasoline"). TLO shall provide a generic Deposit Control Additive ("DCA") injection service, including all required reporting and record keeping prescribed by Applicable Law. The additive supplied shall be a an EPA certified DCA. Subject to the other provisions hereof, Tesoro may request TLO to instead inject a different proprietary DCA into certain gasoline delivered hereunder, instead of the generic DCA provided by TLO, and TLO shall accommodate such requests pursuant to a Terminal Service Order specifying the specific additization required and fees to be charged for its injection, subject to Tesoro providing a suitable Additized Gasoline system for such proprietary additive. TLO shall ensure that such additive is injected into all appropriate gasoline Product delivered to Tesoro at a rate no lower than the Lowest Allowable Concentration ("LAC") at which such additive was certified. The gasoline additization rate shall be determined by Tesoro, but shall not be less than 1.1 times the LAC specified by the respective additive manufacturer or supplier.

(b) Notwithstanding the above, Tesoro shall be solely responsible for registering with the EPA or any other government agency its use of generic or proprietary additive in its fuels, as required by Applicable Law. Tesoro shall submit, to each applicable Terminal, evidence of registration in compliance with 40 C.F.R. Part 80. Tesoro shall also be responsible for full compliance with any quarterly or other regulatory reporting, and any other requirements under Applicable Law, rule or regulation related to use of generic or proprietary additive in Tesoro's Product.

19. RED DYE INJECTION

(a) TLO shall provide a generic red dye additive ("Red Dye") injection service for diesel, including all required reporting and recordkeeping prescribed by Applicable Law. TLO shall be responsible for determining the injection rates, Red Dye inventory levels, meter readings, and calculations of actual treat rates, in compliance with the minimum levels prescribed by the Internal Revenue Service.

(b) Tesoro is responsible for designating which of its accounts shall be authorized to use Red Dye diesel injection services. TLO equipment shall enable designated Carriers and accounts to inject Red Dye upon request prior to loading diesel Product at Terminals. Tesoro's Carrier shall be solely responsible for designating that a load of diesel Product be injected with Red Dye, and TLO shall have no liability with regard to whether a load of Product is additized with Red Dye. TLO shall not be responsible for any loss, damage or liability that arises from Carrier injecting or failing to inject Red Dye into Tesoro's Product.

20. SPECIAL ADDITIVE EQUIPMENT

As set forth in a Terminal Service Order, and subject to the other provisions set forth herein and the availability of suitable space in a Terminal, TLO shall install and maintain at the Terminals, at Tesoro's sole risk, cost and expense, such special additive equipment as may be desirable for Products to be delivered to Tesoro's account hereunder. The engineering and installation of any fixture, equipment or appurtenance placed on the Terminals in respect thereof shall be subject to TLO's prior approval and supervision. During the Term, TLO shall operate the special additive equipment with any fees therefor to be set forth in a Terminal Service Order.

(a) Any such gasoline additive system shall include one above ground storage tank (and any necessary modifications thereto), one additive injection pump, any and all necessary piping and injectors. For the avoidance of doubt, the above ground storage tank shall be supplied by Tesoro.

(b) Subject to the supervision of TLO, TLO or its designee shall install the additive system. Tesoro shall be responsible for 100% of all costs of the Additized Gasoline system, including without limitation, costs associated with any required piping, nozzles, fittings, equipment, injection panels, labor and/or installation thereof, and if any existing load rack equipment will not support such additional additive system, then Tesoro shall bear all costs of enlarging or renovating such load rack to support the additional additive system requested by Tesoro pursuant to a Terminal Service Order. Tesoro shall reimburse TLO for all such costs within ten days after receipt of an invoice from TLO for such costs. Upon completion of the installation of the Additized Gasoline system, the Additized Gasoline system shall become the property of TLO, free and clear of any security interest or lien.

(c) Tesoro shall reimburse TLO for any and all necessary modifications to an additional additive system required by Tesoro during the Term.

21. ETHANOL BLENDING SERVICES

(a) Where ethanol receiving, storage and blending facilities are available at a Terminal, and upon Tesoro's request pursuant to a Terminal Service Order, TLO shall receive, store and blend ethanol into Tesoro's gasoline at a Terminal (" Ethanol Services"). TLO shall provide and operate all equipment required for the Ethanol Services. The equipment shall consist of truck and/or rail unloading racks, tanks, pumps, motors, injectors, computer control, and any other ancillary equipment necessary for the providing of the Ethanol Services.

(b) Tesoro shall be solely responsible for supplying inventories of ethanol at its own expense, including the scheduling and transporting of ethanol into the Terminals, subject to mutually agreeable notice and scheduling procedures. TLO shall receive Tesoro's ethanol into fungible ethanol storage at the Terminal.

(c) Upon a request from Tesoro for Ethanol Services, a Terminal Service Order shall provide the desired blending ratio of ethanol to gasoline at each applicable Terminal, including the minimum Octane (R+M/2) rating ("Blending Instructions"), for each grade of Tesoro's gasoline Product, prior to blending. TLO shall not change the blending ratios without the prior written authorization of Tesoro.

(d) TLO shall maintain for a minimum of five (5) years written or electronic records of the type and volume of oxygenate blended into Tesoro's gasoline.

(e) TLO shall maintain an industry standard quality assurance oversight program of the ethanol blending process. TLO shall provide Tesoro with an end-of-year report that, at a minimum, summarizes the volume of Tesoro's gasoline received by TLO, the volume of oxygenate added to Tesoro's gasoline, and total volume of blended gasoline. TLO will provide such report within fifteen (15) Business Days of Tesoro's request.

(f) TLO shall allow Tesoro or its agents to monitor the oxygenate blending operation by periodic audit, sampling, testing and/or records review to ensure the overall volumes and type of oxygenate blended into gasoline is consistent with the oxygenate claimed by Tesoro as required by 40 CFR 80.101(d)(4)(ii)(B)(2). The scope and type of such audits will be negotiated in good faith by the Parties in advance via written notice.

(g) TLO shall rely on Blending Instructions and data provided by Tesoro in performing its obligations under this Agreement and any Terminal Service Order. Tesoro agrees to be solely responsible for all claims arising from TLO's use of or reliance on these Blending Instructions and data.

(h) When performing the Ethanol Services as per Tesoro's Blending Instructions, TLO shall not certify to Tesoro or any third-party that blended gasoline does or shall meet ASTM D 4814 or any federal, state, or local regulatory specifications. Tesoro agrees that it is receiving from TLO the Blended Gasoline in an "AS IS, WHERE IS" condition without warranties of any kind, including any warranties of merchantability or fitness for a particular purpose, or its ability to meet ASTM or regulatory specifications.

22. ACCOUNTING PROVISIONS AND DOCUMENTATION

(a) TLO shall furnish Tesoro with the following reports covering services hereunder involving Tesoro's Products:

(i) within ten (10) Business Days following the end of the Month, a statement showing, by Product: (A) Tesoro's monthly aggregate deliveries into the Terminals; (B) Tesoro's monthly receipts from the Terminals; (C) calculation of all Tesoro's monthly storage and handling fees; (D) Tesoro's opening inventory for the preceding Month; (E) appropriate monthly loss allowance adjustments (as applicable in accordance with Section 8); and (vi) Tesoro's closing inventory for the preceding Month;

(ii) a copy of any meter calibration report, to be available for inspection upon reasonable request by Tesoro at the Terminals following any calibration;

(iii) upon delivery from the Terminals, a hard copy bill of lading to the Carrier for each truck, barge, or rail delivery. Upon reasonable request only, a hard copy bill of lading shall be provided to Tesoro's accounting group. Upon each truck delivery from the Terminals, bill of lading information shall be sent electronically through *General Electric Information Services Petroex System* or other mutually agreeable system;

(iv) for each marine shipment, all bills of lading (or other appropriate document in the case of barges) and inspection reports (if conducted by independent inspector); and

(v) transfer documents for each in-tank transfer.

(b) TLO shall be required to maintain the capabilities to support truck load authorization technologies at each Terminal. However, costs incurred by TLO for periodic software updates, replacement of loading systems or software or other upgrades made at the request of Tesoro shall be recoverable from Tesoro pursuant to a Terminal Service Order either as a lump sum payment or through an increase in terminalling fees. Notwithstanding the foregoing, if an update, replacement or upgrade is made other than at Tesoro's request, TLO and Tesoro shall mutually agree pursuant to a Terminal Service Order on a fee for such update, replacement or upgrade.

23. AUDIT AND CLAIMS PERIOD

Each Party and its duly authorized agents and/or representatives shall have reasonable access to the accounting records and other documents maintained by the other Party which relate to this Agreement and any Terminal Service Order, and shall have the right to audit such records at any reasonable time or times during the Term and for a period of up to three years after termination of this Agreement or any applicable Terminal Service Order. Claims as to shortage in quantity or defects in quality shall be made by written notice within ninety (90) days after the delivery in question or shall be deemed to have been waived.

24. LIEN WAIVERS

TLO hereby waives, relinquishes and releases any and all liens, including without limitation, any and all warehouseman's liens, custodian's liens, rights of retention and/or similar rights under all applicable laws, which TLO would or might otherwise have under or with respect to the Products throughput, stored or handled hereunder. TLO further agrees to furnish documents reasonably acceptable to Tesoro and its lender(s) (if applicable), and to cooperate with Tesoro in assuring and demonstrating that Products titled in Tesoro's name shall not be subject to any lien on the Terminals or TLO's Products throughput or stored there.

25. NEWLY IMPOSED TAXES AND REGULATORY FEES

(a) Tesoro shall promptly pay or reimburse TLO for any newly imposed taxes, levies, royalties, assessments, licenses, fees, charges, surcharges and sums due of any nature whatsoever (other than income taxes, gross receipt taxes and similar taxes) imposed by any federal, state or local government or agency that TLO incurs on Tesoro's behalf for the services provided by TLO under this Agreement or any Terminal Service Order. If TLO is required to pay any of the foregoing, Tesoro shall promptly reimburse TLO in accordance with the payment terms set forth in this Agreement or any Terminal Service Order.

(b) Upon written request by TLO, Tesoro shall supply TLO with a completed signed original notification certificate of gasoline and diesel fuel registrant as required by the Internal Revenue Service's excise tax regulation. Tesoro further agrees to comply with all Applicable Law with respect to such taxes.

(c) If Tesoro is exempt from the payment of any taxes allocated to Tesoro under the foregoing provisions, Tesoro shall furnish TLO with the proper exemption certificates.

26. LIMITATION ON LIABILITY

Notwithstanding anything to the contrary contained herein, neither Party shall be liable or responsible to the other Party or such other Party's affiliated Persons for any consequential, incidental, or punitive damages, or for loss of profits or revenues (collectively referred to as "special damages") incurred by such Party or its affiliated Persons that arise out of or relate to this Agreement, REGARDLESS OF WHETHER ANY SUCH CLAIM ARISES UNDER OR RESULTS FROM CONTRACT, NEGLIGENCE, OR STRICT LIABILITY OF THE PARTY WHOSE LIABILITY IS BEING WAIVED HEREBY; provided that the foregoing limitation is not intended and shall not affect special damages imposed in favor of unaffiliated Persons that are not Parties to this Agreement.

27. INDEMNITIES

(a) Notwithstanding anything else contained in this Agreement or any Terminal Service Order, TLO shall release, defend, protect, indemnify, and hold harmless Tesoro from and against any and all demands, claims (including third-party claims), losses, costs, suits, or causes of action (including, but not limited to, any judgments, losses, liabilities, fines, penalties, expenses, interest, reasonable legal fees, costs of suit, and damages, whether in law or equity and whether in contract, tort, or otherwise) for or relating to (i) personal or bodily injury to, or death of the employees of Tesoro and, as applicable, its Carriers, customers, representatives, and agents, (ii) loss of or damage to any property, products, material, and/or equipment belonging to Tesoro and, as applicable, its Carriers, customers, representatives, and agents, and each of their respective affiliates, contractors, and subcontractors (except for those volume losses of Products provided for in Section 8), (iii) loss of or damage to any other property, products, material, and/or equipment of any other description (except for those volume losses of Products provided for in Section 8), and/or personal or bodily injury to, or death of any other Person or Persons; and with respect to clauses (i) through (iii) above, which is caused by or resulting in whole or in part from the acts and omissions of TLO in connection with the ownership or operation of the Terminals and the services provided hereunder, and, as applicable, its carriers, customers (other than Tesoro), representatives, and agents, or those of their respective employees with respect to such matters, and (iv) any losses incurred by Tesoro due to violations of this Agreement or any Terminal Service Order by TLO, or, as applicable, its customers (other than Tesoro), representatives, and agents; PROVIDED THAT TLO SHALL NOT BE OBLIGATED TO INDEMNIFY OR HOLD HARMLESS TESORO FROM AND AGAINST ANY CLAIMS TO THE EXTENT THEY RESULT FROM THE BREACH OF CONTRACT, GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF TESORO.

(b) Notwithstanding anything else contained in this Agreement or any Terminal Service Order, Tesoro shall release, defend, protect, indemnify, and hold harmless TLO and, and each of its respective affiliates, officers, directors, shareholders, agents, employees, successors-in-interest, and assignees from and against any and all demands, claims (including third-party claims), losses, costs, suits, or causes of action (including, but not limited to, any judgments, losses, liabilities, fines, penalties, expenses, interest, reasonable legal fees, costs of suit, and damages, whether in law or equity and whether in contract, tort, or otherwise) for or relating to (i) personal or bodily injury to, or death of the employees of TLO and, as applicable, its carriers, customers, representatives, and agents; (ii) loss of or damage to any property, products, material, and/or equipment belonging to TLO and, as applicable, its carriers, customers, representatives, and agents, and each of their respective affiliates, contractors, and subcontractors (except for those volume losses of Products provided for in Section 8); (iii) loss of or damage to any other property, products, material, and/or equipment of any other description (except for those volume losses of Products provided for in Section 8), and/or personal or bodily injury to, or death of any other Person or Persons; and with respect to clauses (i) through (iii) above, which is caused by or resulting in whole or in part from the acts and omissions of Tesoro, in connection with Tesoro's and its customers' use of the Terminals and the services provided hereunder and Tesoro's Products stored hereunder, and, as applicable, its Carriers, customers, representatives, and agents, or those of their respective employees with respect to such matters; and (iv) any losses incurred by TLO due to violations of this Agreement or any Terminal Service Order by Tesoro, or, as applicable, its Carriers, customers, representatives, and agents; PROVIDED THAT TESORO SHALL NOT BE OBLIGATED TO INDEMNIFY OR HOLD HARMLESS TLO FROM AND AGAINST ANY CLAIMS TO THE EXTENT THEY RESULT FROM THE BREACH OF CONTRACT, GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF TLO. For the avoidance of doubt, nothing herein shall constitute a release by Tesoro of any volume losses that are caused by the TLO's gross negligence, breach of this Agreement or any Terminal Service Order or willful misconduct.

28. INSURANCE

(a) At all times during the Term and for a period of two (2) years after termination of this Agreement for any coverage maintained on a "claims-made" or "occurrence" basis, Tesoro and/or its Carrier (if applicable) shall maintain at their expense the below listed insurance in the amounts specified below which are minimum requirements. Tesoro shall require that Carrier cause all of its contractors providing authorized drivers or authorized vehicles, to carry such insurance, and Tesoro shall be liable to TLO for their failure to do so. Such insurance shall provide coverage to TLO and such policies, other than Worker's Compensation Insurance, shall include TLO as an Additional Insured. Each policy shall provide that it is primary to and not contributory with any other insurance, including any self-insured retention, maintained by TLO (which shall be excess) and each policy shall provide the full coverage required by this Agreement and any Terminal Service Order. All such insurance shall be written with carriers and underwriters acceptable to TLO, and eligible to do business in the states where the Terminals are located and having and maintaining an A.M. Best financial strength rating of no less than "A-" and financial size rating no less than "VII"; provided that Tesoro and/or the Carrier may procure worker's compensation insurance from the state fund of the state where the Terminal(s) are located. All limits listed below are required MINIMUM LIMITS:

(i) Workers Compensation and Occupational Disease Insurance which fully complies with Applicable Law of the state where each Terminal is located, in limits not less than statutory requirements;

(ii) Employers Liability Insurance with a minimum limit of $1,000,000 for each accident, covering injury or death to any employee which may be outside the scope of the worker's compensation statute of the jurisdiction in which the worker's service is performed, and in the aggregate as respects occupational disease;

(iii) Commercial General Liability Insurance, including contractual liability insurance covering Carrier's indemnity obligations under this Agreement or any Terminal Service Order, with minimum limits of $1,000,000 combined single limit per occurrence for bodily injury and property damage liability, or such higher limits as may be required by TLO or by Applicable Law from time to time. This policy shall include Broad Form Contractual Liability insurance coverage which shall specifically apply to the obligations assumed in this Agreement and any Terminal Service Order by Tesoro;

(iv) Automobile Liability Insurance covering all owned, non-owned and hired vehicles, with minimum limits of $1,000,000 combined single limit per occurrence for bodily injury and property damage liability, or such higher limit(s) as may be required by Tesoro or by Applicable Law from time to time. Coverage must assure compliance with Sections 29 and 30 of the Motor Carrier Act of 1980 and all applicable rules and regulations of the Federal Highway Administration's Bureau of Motor Carrier Safety and Interstate Commerce Commissioner (Form MCS 90 Endorsement). Limits of liability for this insurance must be in accordance with the financial responsibility requirement of the Motor Carrier Act, but not less than $1,000,000 per occurrence;

(v) Excess (Umbrella) Liability Insurance with limits not less than $4,000,000 per occurrence. Additional excess limits may be utilized to supplement inadequate limits in the primary policies required in items (ii), (iii), and (iv) above;

(vi) Pollution Legal Liability with limits not less than $25,000,000 per loss with an annual aggregate of $25,000,000. Coverage shall apply to bodily injury and property damage including loss of use of damaged property and property that has not been physically injured; cleanup costs, defense, including costs and expenses incurred in the investigation, defense or settlement of claim; and

(vii) Property Insurance, with a limit of no less than $1,000,000, which property insurance shall be first-party property insurance to adequately cover Tesoro's owned property; including personal property of others.

(b) All such policies must be endorsed with a Waiver of Subrogation endorsement, effectively waiving rights of recovery under subrogation or otherwise, against TLO, and shall contain where applicable, a severability of interest clause and a standard cross liability clause.

(c) Upon execution of this Agreement and prior to the operation of any equipment by Tesoro, Carrier or its authorized drivers at the Terminals, Tesoro and/or Carrier will furnish to TLO, and at least annually thereafter (or at any other times upon request by TLO) during the Term (and for any coverage maintained on a "claims-made" basis, for two (2) years after the termination of this Agreement or any applicable Terminal Service Order), insurance certificates and/or certified copies of the original policies to evidence the insurance required herein, including on behalf of Carrier's contractors providing authorized vehicles or authorized drivers. Such certificates shall be in the form of the "Accord" Certificate of Insurance, and reflect that they are for the benefit of TLO and shall provide that there will be no material change in or cancellation of the policies unless TLO is given at least thirty (30) days prior written notice. Certificates providing evidence of renewal of coverage shall be furnished to TLO prior to policy expiration.

(d) Tesoro and/or Carrier shall be solely responsible for any deductibles or self-insured retention.

29. GOVERNMENT REGULATIONS

(a) Product Certification. Each Party certifies that none of the Products covered by this Agreement or any Terminal Service Order were derived from crude petroleum, petrochemical, or gas which was produced or withdrawn from storage in violation of any federal, state or other governmental law, nor in violation of any rule, regulation or promulgated by any governmental agency having jurisdiction in the premises.

(b) Applicable Law. The Parties are entering into this Agreement and any Terminal Service Order in reliance upon and shall comply in all material respects with all Applicable Law which directly or indirectly affects the Products throughput hereunder, or any receipt, throughput delivery, transportation, handling or storage of Products hereunder or the ownership, operation or condition of each Terminal. Each Party shall be responsible for compliance with all Applicable Laws associated with such Party's respective performance hereunder and the operation of such Party's facilities. In the event any action or obligation imposed upon a Party under this Agreement and any Terminal Service Order shall at any time be in conflict with any requirement of Applicable Law, then this Agreement and any Terminal Service Order shall immediately be modified to conform the action or obligation so adversely affected to the requirements of the Applicable Law, and all other provisions of this Agreement and any Terminal Service Order shall remain effective.

(c) New Or Changed Applicable Law: If during the Term, any new Applicable Law becomes effective or any existing Applicable Law or its interpretations is materially changed, which change is not addressed by another provision of this Agreement or any Terminal Service Order and which has a material adverse economic impact upon a Party, either Party, acting in good faith, shall have the option to request renegotiation of the relevant provisions of this Agreement or any Terminal Service Order with respect to future performance. The Parties shall then meet to negotiate in good faith amendments to this Agreement or to an applicable Terminal Service Order that will conform to the new Applicable Law while preserving the Parties' economic, operational, commercial and competitive arrangements in accordance with the understandings set forth herein.

30. SUSPENSION OF REFINERY OPERATIONS

(a) In the event that Tesoro decides to permanently or indefinitely suspend refining operations at any of Tesoro's Refineries for a period that shall continue for at least twelve (12) consecutive Months, Tesoro may provide written notice to TLO of Tesoro's intent to terminate that part of this Agreement or any Terminal Service Order relating to the applicable associated Terminal (the "Suspension Notice"). Such Suspension Notice shall be sent at any time after Tesoro has publicly announced such suspension and, upon the expiration of the twelve (12)-Month period following the date such notice is sent (the "Notice Period"), that part of this Agreement or any Terminal Service Order relating to such Terminal shall terminate. If Tesoro publicly announces, more than two Months prior to the expiration of the Notice Period, its intent to resume operations at the applicable Refinery, then the Suspension Notice shall be deemed revoked and the applicable portion of this Agreement or any Terminal Service Order shall continue in full force and effect as if such Suspension Notice had never been delivered.

(b) During the Notice Period, for any Month during which Tesoro does not throughput any volumes of Products at an affected Terminal, Tesoro shall be permitted to reduce its Minimum Throughput Commitment by an amount equal to the Stipulated Volume for such affected Terminal(s), provided that Tesoro pays TLO a fee for such Month (a "Curtailment Fee"). Curtailment Fees for each applicable Month shall be equal to (i) such Terminal's Stipulated Volume multiplied by (ii) the number of days in the Month, multiplied by (iii) the weighted average monthly Terminalling Service Fee incurred by Tesoro at such Terminal during the twelve (12) calendar Months immediately preceding the Refinery's suspension of operations. For avoidance of doubt, for the purposes of calculating Shortfall Payments during any Month in which Tesoro pays TLO a Curtailment Fee, volume shortfalls shall be determined by deducting volumes throughput at the Terminals by TRMC during such Month from the Adjusted Minimum

Throughput Commitment reduced by an amount equal to the Stipulated Volume for such affected Terminal(s).

(c) Upon the expiration of the Notice Period, Tesoro shall no longer owe TLO any future Curtailment Fees and shall have no throughput obligation with respect to the affected Terminal, and Tesoro's Minimum Throughput Commitment shall be adjusted to the Adjusted Minimum Volume Commitment for the remaining unaffected Terminals, by deducting the applicable Stipulated Volume for the Terminal removed from this Agreement or any Terminal Service Order under this Section 30. If refining operations at any of the Refineries are suspended for any reason (including Refinery turnarounds and other scheduled maintenance), then Tesoro shall remain liable for Shortfall Payments under this Agreement or any applicable Terminal Service Order for the duration of the suspension, unless and until this Agreement or applicable Terminal Service Order is terminated as provided above. Schedule B attached hereto includes a list of the Terminals associated with each of the Refineries.

31. FORCE MAJEURE

(a) As soon as possible upon the occurrence of a Force Majeure, TLO shall provide Tesoro with written notice of the occurrence of such Force Majeure (a "Force Majeure Notice"). TLO shall identify in such Force Majeure Notice the approximate length of time that TLO reasonably believes in good faith such Force Majeure shall continue (the "Force Majeure Period"). If TLO advises in any Force Majeure Notice that it reasonably believes in good faith that the Force Majeure Period shall continue for more than twelve (12) consecutive Months, then, subject to Section 32 below, at any time after TLO delivers such Force Majeure Notice, either Party may terminate this Agreement or any Terminal Service Order solely with respect to the affected Terminal(s), but only upon delivery to the other Party of a notice (a "Termination Notice") at least twelve (12) Months prior to the expiration of the Force Majeure Period; provided, however; that such Termination Notice shall be deemed cancelled and of no effect if the Force Majeure Period ends prior to the expiration of such twelve (12)-Month period. If this Agreement or any Terminal Service Order is terminated as to a Terminal under this Section 31, then Tesoro's Minimum Throughput Commitment shall be adjusted to the Adjusted Minimum Volume Commitment for the remaining unaffected Terminals, by deducting the applicable Stipulated Volume for the Terminal so removed from this Agreement or any Terminal Service Order. For the avoidance of doubt, neither Party may exercise its right under this Section 31(a) to terminate this Agreement or any Terminal Service Order as a result of a Force Majeure with respect to any Terminal that has been unaffected by, or has been restored to working order since, the applicable Force Majeure, including pursuant to a Restoration under Section 32.

(b) Notwithstanding the foregoing, if Tesoro delivers a Termination Notice to TLO (the "Tesoro Termination Notice") and, within thirty (30) days after receiving such Tesoro Termination Notice, TLO notifies Tesoro that TLO reasonably believes in good faith that it shall be capable of fully performing its obligations under this Agreement or any Terminal Service Order within a reasonable period of time, then the Tesoro Termination Notice shall be deemed revoked and the applicable portion of this Agreement or any Terminal Service Order shall continue in full force and effect as if such Tesoro Termination Notice had never been given.

(c) If either Party terminates a portion of this Agreement or any Terminal Service Order related to one or more specific Terminals, then the Minimum Throughput Commitment shall be reduced by the Stipulated Volume for the applicable Terminal(s).

32. CAPABILITIES OF FACILITIES

(a) Interruptions of Service. Subject to Force Majeure and interruptions for routine repair and maintenance, consistent with customary terminal industry standards, TLO shall use reasonable commercial efforts to minimize the interruption of service at each Terminal and any portion thereof. TLO shall promptly inform Tesoro operational personnel of any anticipated partial or complete interruption of service at any Terminal, including relevant information about the nature, extent, cause and expected duration of the interruption and the actions TLO is taking to resume full operations, provided that TLO shall not have any liability for any failure to notify, or delay in notifying, Tesoro of any such matters except to the extent Tesoro has been materially prejudiced or damaged by such failure or delay.

(b) Maintenance and Repair Standards. Subject to Force Majeure and interruptions for routine repair and maintenance, consistent with customary terminal industry standards, TLO shall maintain each Terminal in a condition and with a capacity sufficient to throughput a volume of Tesoro's Products at least equal to the respective Stipulated Volume for such Terminal. TLO's obligations may be temporarily suspended during the occurrence of, and for the entire duration of, a Force Majeure or other interruption of service that prevents TLO from terminalling the Minimum Throughput Commitment hereunder. To the extent TLO is prevented from terminalling volumes equal to the full Minimum Throughput Commitment for reasons of Force Majeure or other interruption of service, then Tesoro's obligation to throughput the Minimum Throughput Commitment and pay any Shortfall Payment shall be reduced proportionately in an amount not to exceed the Stipulated Volume for the affected Terminal. At such time as TLO is capable of terminalling volumes equal to the Minimum Throughput Commitment, Tesoro's obligation to throughput the full Minimum Throughput Commitment shall be restored. If for any reason, including, without limitation, a Force Majeure event, the throughput or storage capacity of any Terminal should fall below the capacity required for throughput of the Stipulated Volume for that Terminal, then within a reasonable period of time after the commencement of such reduction, TLO shall make repairs to the Terminal to restore the capacity of such Terminal to that required for throughput of the Stipulated Volume ("Restoration"). Except as provided below in Section 32(c), all of such Restoration shall be at TLO's cost and expense, unless the damage creating the need for such repairs was caused by the negligence or willful misconduct of Tesoro, its employees, agents or customers or the failure of Tesoro's Products to meet the specifications as provided for in Section 11(a).

(c) Capacity Resolution. In the event of the failure of TLO to maintain any Terminal in a condition and with a capacity sufficient to throughput a volume of Tesoro's Products equal to the respective Stipulated Volume for such Terminal, then either Party shall have the right to call a meeting between executives of both Parties by providing at least two (2) Business Days' advance written notice. Any such meeting shall be held at a mutually agreeable location and will be attended by executives of both Parties each having sufficient authority to commit his or her respective Party to a Capacity Resolution (hereinafter defined). At the meeting, the Parties will negotiate in good faith with the objective of reaching a joint resolution for the Restoration of capacity on the Terminal which will, among other things, specify steps to be taken by TLO to fully accomplish Restoration and the deadlines by which the Restoration must be completed (the "Capacity Resolution"). Without limiting the generality of the foregoing, the Capacity Resolution shall set forth an agreed upon time schedule for the Restoration activities. Such time schedule shall be reasonable under the circumstances, consistent with customary terminal industry standards and shall take into consideration TLO's economic considerations relating to costs of the repairs and Tesoro's requirements concerning its refining and marketing operations. TLO shall use commercially reasonable efforts to continue to provide storage and throughput of Tesoro's Products at the affected Terminal, to the extent the Terminal has capability of doing so, during the period before Restoration is completed. In the event that Tesoro's economic considerations justify incurring additional costs to restore the Terminal in a more expedited manner than the time schedule determined in accordance with the preceding sentence, Tesoro may require TLO to expedite the Restoration to the extent reasonably possible, subject to Tesoro's payment, in advance, of the estimated incremental costs to be incurred as a result of the expedited time schedule. In the event the Parties agree to an expedited Restoration plan in which Tesoro agrees to fund a portion of the Restoration cost, then neither Party shall have the right to terminate this Agreement or any applicable Terminal Service Order in connection with a Force Majeure, so long as such Restoration is completed with due diligence, and Tesoro shall pay its portion of the Restoration costs to TLO in advance based on an estimate based on reasonable engineering standards promulgated by the Association for Facilities Engineering. Upon completion, Tesoro shall pay the difference between the actual portion of Restoration costs to be paid by Tesoro pursuant to this Section 32(c) and the estimated amount paid under the preceding sentence within thirty (30) days after receipt of TLO's invoice therefor, or, if appropriate, TLO shall pay Tesoro the excess of the estimate paid by Tesoro over TLO's actual costs as previously described within thirty (30) days after completion of the Restoration.

(d) Tesoro's Right To Cure. If at any time after the occurrence of (x) a Partnership Change of Control or (y) a sale of a Refinery, TLO either (i) refuses or fails to meet with Tesoro within the period set forth in Section 32(c), (ii) fails to agree to perform a Capacity Resolution in accordance with the standards set forth in Section 32(c), or (iii) fails to perform its obligations in compliance with the terms of a Capacity Resolution, Tesoro may, as its sole remedy for any breach by TLO of any of its obligations under Section 32(c), require TLO to complete a Restoration of the affected Terminal, subject to and to the extent permitted under the terms, conditions and/or restrictions of applicable leases, permits and/or Applicable Law. Any such Restoration required under this Section 32(d) shall be completed by TLO at Tesoro's cost. TLO shall use commercially reasonable efforts to continue to provide storage and throughput of Tesoro's Products at the affected Terminal, during the period while such Restoration is being completed. Any work performed by TLO pursuant to this Section 32(d) shall be performed and completed in a good and workmanlike manner consistent with applicable industry standards and in accordance with all Applicable Law. Additionally, during such period after the occurrence of (x) a Partnership Change of Control or (y) a sale of a Refinery, Tesoro may exercise any remedies available to it under this Agreement or any Terminal Service Order (other than termination), including the right to immediately seek temporary and permanent injunctive relief for specific performance by TLO of the applicable provisions of this Agreement or any Terminal

Service Order, including, without limitation, the obligation to make Restorations as described herein.

(e) Commingled Storage. Unless otherwise specified in a Terminal Service Order, all storage and throughput of Tesoro's volumes shall be on a fungible commingled basis, and TLO may commingle such Products with Products of third parties of like grade and kind. All Tank Heels shall be allocated among all storage users on a pro rata basis. Tank heels cannot be withdrawn from any tank without prior approval of TLO. TLO shall have the right to enter into arrangements with third parties to throughput and store volumes of Products at each Terminal, provided however, that TLO shall not enter into any third party arrangements that would restrict or limit the ability of Tesoro to throughput the Stipulated Volume at each Terminal each Month without proration or allocation, on reasonable schedules consistent with Tesoro's requirements, and to receive the Ancillary Services provided herein.

(f) Dedicated Storage. In the event that the Parties determine to use dedicated storage tanks during the Term pursuant to a Terminal Service Order, such storage tanks and capacities identified on a Terminal Service Order shall be dedicated and used exclusively for the storage and throughput of Tesoro's Product. For those dedicated tanks, Tesoro shall be responsible for providing all Tank Heels required for operation of such tanks. Tesoro shall pay the fees specified on a Terminal Service Order for the dedication of such tanks. Tank heels cannot be withdrawn from any dedicated storage tank without prior approval of TLO.

(g) First Refusal. In the event that TLO desires to enter into a third-party dedicated storage arrangement (a "Storage Contract") for any storage tank subject to this Agreement and existing on the Commencement Date (a "Subject Tank"), TLO shall provide Tesoro with (i) written notice of its intent to enter into a Storage Contract and the general terms of such transaction and (ii) a thirty (30)-day period (beginning upon Tesoro's receipt of such written notice) (the "Offer Period") in which Tesoro may make a good faith offer to enter into a Storage Contract with TLO with respect to such Subject Tank (the "Right of First Refusal"). If Tesoro makes an offer on terms no less favorable to TLO than the third-party offer for a Storage Contract with respect to such Subject Tank during the Offer Period, then TLO shall be obligated to enter into a Storage Contract with Tesoro. If Tesoro does not exercise its Right of First Refusal in the manner set forth above, TLO may, for the next ninety (90) days, proceed with the negotiation of the third-party Storage Contract. If no third-party Storage Contract is consummated during such ninety-day period, then the terms and conditions of this Section 32(g) shall again become effective with respect to such Storage Tank.

33. TERMINATION

(a) A Party shall be in default under this Agreement or any Terminal Service Order if:

(i) the Party breaches any provision of this Agreement or applicable Terminal Service Order, which breach has a material adverse effect on the other Party, and such breach is not excused by Force Majeure or cured within fifteen (15) Business Days after notice thereof (which notice shall describe such breach in reasonable detail) is received by such Party (unless such failure is not commercially reasonably capable of being cured in such fifteen (15) Business Day period in which case such Party shall have commenced remedial action to cure such breach and shall continue to diligently and timely pursue the completion of such remedial action after such notice);

(ii) the Party (A) files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause of action under any bankruptcy, insolvency, reorganization or similar Applicable Law, or has any such petition filed or commenced against it, (B) makes an assignment or any general arrangement for the benefit of creditors, (C) otherwise becomes bankrupt or insolvent (however evidenced) or (D) has a liquidator, administrator, receiver, trustee, conservator or similar official appointed with respect to it or any substantial portion of its property or assets; or

(iii) if any of the Parties is in default as described above, then (A) if Tesoro is in default, TLO may or (B) if TLO is in default, Tesoro may: (1) terminate this Agreement or applicable Terminal Service Order upon notice to the defaulting Parties; (2) withhold any payments due to the defaulting Parties under this Agreement or applicable Terminal Service Order; and/or (3) pursue any other remedy at law or in equity.

(b) If a Party breaches any provision of this Agreement or a Terminal Service Order, which breach does not have a material adverse effect on the other Party, the breaching Party shall still have the obligation to cure such breach.

(c) Tesoro shall, upon expiration or termination of this Agreement or any Terminal Service Order, promptly remove all of its Products including any downgraded and interface Product and Transmix from the Terminals, and TLO shall remove the remaining Tank Heels and deliver them to Tesoro or Tesoro's designee, within thirty (30) days of such termination or expiration. In the event all of the Product is not removed within such thirty (30) day period, Tesoro shall be assessed a storage fee to all Products held in storage more than thirty (30) days beyond the termination or expiration of this Agreement or applicable Terminal Service Order until such time Tesoro's entire Product is removed from the Terminals.

(d) Tesoro shall, upon expiration or termination of this Agreement or any Terminal Service Order, promptly remove any and all of its owned equipment not purchased by TLO pursuant to Section 13 above, and restore the Terminals to their condition prior to the installation of such equipment.

34. RIGHT TO ENTER INTO A NEW TERMINALLING AGREEMENT

(a) Upon termination of this Agreement or a Terminal Service Order for reasons other than (x) a default by Tesoro and (y) any other termination of this Agreement or a Terminal Service Order initiated by Tesoro pursuant to Sections 30 or 31. Tesoro shall have the right to require TLO to enter into a new terminalling services agreement with Tesoro that (i) is consistent with the terms set forth in this Agreement, (ii) relates to the same Terminals that are the subject matter of this Agreement, and (iii) has commercial terms that are, in the aggregate, equal to or more favorable to TLO than fair market value terms as would be agreed by similarly-situated parties negotiating at arm's length; provided, however; that the term of any such new terminalling services agreement shall not extend beyond April 30, 2031.

(b) In the event that TLO proposes to enter into a terminalling services agreement with a third party within two (2) years after the termination of this Agreement or any Terminal Service Order for reasons other than (x) by default by Tesoro and (y) any other termination of this Agreement or any Terminal Service Order initiated by Tesoro pursuant to Sections 30 or 31, TLO shall give Tesoro ninety (90) days' prior written notice of any proposed new terminalling services agreement with a third party, including (i) details of all of the material terms and conditions thereof and (ii) a thirty (30)-day period (beginning upon Tesoro's receipt of such written notice) (the "First Offer Period") in which Tesoro may make a good faith offer to enter into a new terminalling agreement with TLO (the "Terminalling Right of First Refusal"). If Tesoro makes an offer on terms no less favorable to TLO than the third-party offer with respect to such terminalling services agreement during the First Offer Period, then TLO shall be obligated to enter into a terminalling services agreement with Tesoro on the terms set forth in Section 34(a) above. If Tesoro does not exercise its Terminalling Right of First Refusal in the manner set forth above, TLO may, for the next ninety (90) days, proceed with the negotiation of the third-party terminalling services agreement. If no third party agreement is consummated during such ninety-day period, the terms and conditions of this Section 34(b) shall again become effective.

35. ASSIGNMENT; PARTNERSHIP CHANGE OF CONTROL

(a) Tesoro shall not assign all of its obligations hereunder or under a Terminal Service Order without TLO's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however; that Tesoro may assign this Agreement or any Terminal Service Order, without TLO's consent, in connection with a sale by Tesoro of a Refinery associated with one of TLO's Terminals so long as the transferee: (i) agrees to assume all of Tesoro's obligations under this Agreement and any Terminal Service Order with respect to the associated Terminal(s); and (ii) is financially and operationally capable of fulfilling the terms of this Agreement and any Terminal Service Order, which determination shall be made by Tesoro in its reasonable judgment.

(b) TLO shall not assign its rights or obligations under this Agreement or any Terminal Service Order without Tesoro's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however, that (i) TLO may assign this Agreement or any Terminal Service Order without Tesoro's consent in connection with a sale by TLO of one or more of its Terminals so long as the transferee: (A) agrees to assume all of TLO's obligations under this Agreement and any Terminal Service Order with respect to the associated Terminal(s); (B) is financially and operationally capable of fulfilling the terms of this Agreement and any Terminal Service Order, which determination shall be made by TLO in its reasonable judgment; and (C) is not a competitor of Tesoro; and (ii) TLO shall be permitted to make a collateral assignment of this Agreement or any Terminal Service Order solely to secure working capital financing for TLO.

(c) If either Tesoro or TLO assigns its rights or obligations as permitted under this Agreement or any Terminal Service Order relating to a specific Terminal, then: (i) the Minimum Throughput Commitment shall be converted to the Adjusted Minimum Volume Commitment for the Terminals remaining subject to this Agreement or applicable Terminal Service Order by reducing by the amount of the Stipulated Volume for such assigned Terminal, and both Tesoro's and TLO's obligations shall continue with respect to the remaining Terminals and the adjusted Minimum Throughput Commitment; and (ii) the rights and obligations relating to the affected Terminal, and its Stipulated Volume, shall be novated into a new agreement with the assignee, and such assignee shall be responsible for the performance of the assigning Party's obligations relating to the affected Terminal.

(d) Any assignment that is not undertaken in accordance with the provisions set forth above shall be null and void ***ab initio***. A Party making any assignment shall promptly notify the other Party of such assignment, regardless of whether consent is required. This Agreement and any Terminal Service Order shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

(e) Tesoro's obligations hereunder shall not terminate in connection with a Partnership Change of Control, provided however, that in the case of a Partnership Change of Control, Tesoro shall have the option to extend the Term as provided in Section 3. TLO shall provide Tesoro with notice of any Partnership Change of Control at least sixty (60) days prior to the effective date thereof.

36. NOTICE

All notices, requests, demands, and other communications hereunder will be in writing and will be deemed to have been duly given: (a) if by transmission by facsimile or hand delivery, when delivered; (b) if mailed via the official governmental mail system, five (5) Business Days after mailing, provided said notice is sent first class, postage pre-paid, via certified or registered mail, with a return receipt requested; (c) if mailed by an internationally recognized overnight express mail service such as Federal Express, UPS, or DHL Worldwide, one (1) Business Day after deposit therewith prepaid; or (d) if by e-mail, one Business Day after delivery with receipt confirmed. All notices will be addressed to the Parties at the respective addresses as follows:

If to TRMC or TAK, to:

c/o Tesoro Refining & Marketing Company LLC
19100 Ridgewood Parkway
San Antonio, Texas 78259

<u>For legal notices</u>:
Attention: Charles L. Magee, General Counsel
phone: (253) 896-8766
email: Charles.L.Magee@tsocorp.com

<u>For all other notices and communications</u>:

Attention: Paul E. Carlson, Director of Supply Operations
phone: (210) 626-4389
email: Paul.E.Carlson@tsocorp.com

If to TLO, to:

Tesoro Logistics Operations LLC
19100 Ridgewood Parkway
San Antonio, Texas 78259

For legal notices:
Attention: Charles S. Parrish, General Counsel
phone: (210) 626-4280
email: charles.s.parrish@tsocorp.com

For all other notices and communications:
Attention: Rick D. Weyen, Vice President, Logistics
phone: (210) 626-4379
email: Rick.D.Weyen@tsocorp.com

or to such other address or to such other Person as either Party will have last designated by notice to the other Party.

37. CONFIDENTIAL INFORMATION

(a) Obligations. Each Party shall use reasonable efforts to retain the other Parties' Confidential Information in confidence and not disclose the same to any third party nor use the same, except as authorized by the disclosing Party in writing or as expressly permitted in this Section 37. Each Party further agrees to take the same care with the other Party's Confidential Information as it does with its own, but in no event less than a reasonable degree of care. Excepted from these obligations of confidence and non-use is that information which:

(i) is available, or becomes available, to the general public without fault of the receiving Party;

(ii) was in the possession of the receiving Party on a non-confidential basis prior to receipt of the same from the disclosing Party (it being understood, for the avoidance of doubt, that this exception shall not apply to information of TLO that was in the possession of Tesoro or any of its affiliates as a result of their ownership or operation of the Terminals prior to the Commencement Date);

(iii) is obtained by the receiving Party without an obligation of confidence from a third party who is rightfully in possession of such information and, to the receiving Party's knowledge, is under no obligation of confidentiality to the disclosing Party; or

(iv) is independently developed by the receiving Party without reference to or use of the disclosing Party's Confidential Information.

For the purpose of this Section 37, a specific item of Confidential Information shall not be deemed to be within the foregoing exceptions merely because it is embraced by, or underlies, more general information in the public domain or in the possession of the receiving Party.

(b) Required Disclosure. Notwithstanding Section 37(a) above, if the receiving Party becomes legally compelled to disclose the Confidential Information by a court, Governmental Authority or Applicable Law, or is required to disclose by the listing standards of any applicable securities exchange, any of the disclosing Party's Confidential Information, the receiving Party shall promptly advise the disclosing Party of such requirement to disclose Confidential Information as soon as the receiving Party becomes aware that such a requirement to disclose might become effective, in order that, where possible, the disclosing Party may seek a protective order or such other remedy as the disclosing Party may consider appropriate in the circumstances. The receiving Party shall disclose only that portion of the disclosing Party's Confidential Information that it is required to disclose and shall cooperate with the disclosing Party in allowing the disclosing Party to obtain such protective order or other relief.

(c) Return of Information. Upon written request by the disclosing Party, all of the disclosing Party's Confidential Information in whatever form shall be returned to the disclosing Party upon termination of this Agreement or destroyed with destruction certified by the receiving Party, without the receiving Party retaining copies thereof except that one copy of all such Confidential Information may be retained by a Party's legal department solely to the extent that such Party is required to keep a copy of such Confidential Information pursuant to Applicable Law, and the receiving Party shall be entitled to retain any Confidential Information in the electronic form or stored on automatic computer back-up archiving systems during the period such backup or archived materials are retained under such Party's customary procedures and policies; provided, however, that any Confidential Information retained by the receiving Party shall be maintained subject to confidentiality pursuant to the terms of this Section 37, and such archived or back-up Confidential Information shall not be accessed except as required by Applicable Law.

(d) Receiving Party Personnel. The receiving Party will limit access to the Confidential Information of the disclosing Party to those of its employees, attorneys and contractors that have a need to know such information in order for the receiving Party to exercise or perform its rights and obligations under this Agreement or any Terminal Service Order (the "Receiving Party Personnel"). The Receiving Party Personnel who have access to any Confidential Information of the disclosing Party will be made aware of the confidentiality provision of this Agreement, and will be required to abide by the terms thereof. Any third party contractors that are given access to Confidential Information of a disclosing Party pursuant to the terms hereof shall be required to sign a written agreement pursuant to which such Receiving Party Personnel agree to be bound by the provisions of this Agreement, which written agreement will expressly state that it is enforceable against such Receiving Party Personnel by the disclosing Party.

(e) Survival. The obligation of confidentiality under this Section 37 shall survive the termination of this Agreement for a period of two (2) years.

38. MISCELLANEOUS

(a) Modification; Waiver. This Agreement or any Terminal Service Order may be terminated, amended or modified only by a written instrument executed by the Parties. Any of the terms and conditions of this Agreement or any Terminal Service Order may be waived in writing at any time by the Party entitled to the benefits thereof. No waiver of any of the terms and conditions of this Agreement or any Terminal Service Order, or any breach thereof, will be effective unless in writing signed by a duly authorized individual on behalf of the Party against which the waiver is sought to be enforced. No waiver of any term or condition or of any breach of this Agreement or any Terminal Service Order will be deemed or will constitute a waiver of any other term or condition or of any later breach (whether or not similar), nor will such waiver constitute a continuing waiver unless otherwise expressly provided.

(b) Entire Agreement. This Agreement, together with the Schedules and Terminal Service Orders, constitutes the entire agreement among the Parties pertaining to the subject matter hereof and supersedes all prior agreements and understandings of the Parties in connection therewith.

(c) Governing Law; Jurisdiction. This Agreement and any Terminal Service Order shall be governed by the laws of the State of Texas without giving effect to its conflict of laws principles. Each Party hereby irrevocably submits to the exclusive jurisdiction of any federal court of competent jurisdiction situated in the United States District Court for the Western District of Texas, San Antonio Division, or if such federal court declines to exercise or does not have jurisdiction, in the district court of Bexar County, Texas. The Parties expressly and irrevocably submit to the jurisdiction of such Courts and irrevocably waive any objection which they may now or hereafter have to the laying of venue of any action, suit or proceeding arising out of or relating to this Agreement or any Terminal Service Order brought in such Courts, irrevocably waive any claim that any such action, suit or proceeding brought in any such Court has been brought in an inconvenient forum and further irrevocably waive the right to object, with respect to such claim, action, suit or proceeding brought in any such Court, that such Court does not have jurisdiction over such Party. The Parties hereby irrevocably consent to the service of process by registered mail, postage prepaid, or by personal service within or without the State of Texas. Nothing contained herein shall affect the right to serve process in any manner permitted by law.

(d) Counterparts. This Agreement and any Terminal Service Order may be executed in one or more counterparts (including by facsimile or portable document format (pdf)) for the convenience of the Parties hereto, each of which counterparts will be deemed an original, but all of which counterparts together will constitute one and the same agreement.

(e) Severability. Whenever possible, each provision of this Agreement and any Terminal Service Order will be interpreted in such manner as to be valid and effective under applicable law, but if any provision of this Agreement or any Terminal Service Order or the application of any such provision to any Person or circumstance will be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision hereof, and the Parties will negotiate in good faith with a view to substitute for such provision a suitable and equitable solution in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid, illegal or unenforceable provision.

(f) No Third Party Beneficiaries. It is expressly understood that the provisions of this Agreement and any Terminal Service Order do not impart enforceable rights in anyone who is not a Party or successor or permitted assignee of a Party.

(g) WAIVER OF JURY TRIAL. EACH PARTY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY PROCEEDINGS RELATING TO THIS AGREEMENT OR ANY TERMINAL SERVICE ORDER OR ANY PERFORMANCE OR FAILURE TO PERFORM OF ANY OBLIGATION HEREUNDER.

(h) Schedules and Terminal Service Order(s). Each of the Schedules and Terminal Service Order(s) attached hereto and referred to herein is hereby incorporated in and made a part of this Agreement as if set forth in full herein.

[Remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the Parties hereto have duly executed this Agreement as of the date first written above.

TESORO ALASKA COMPANY

By: /s/ GREGORY J. GOFF
Gregory J. Goff
President

TESORO REFINING & MARKETING COMPANY LLC

By: /s/ GREGORY J. GOFF
Gregory J. Goff
President

TESORO LOGISTICS OPERATIONS LLC

By: TESORO LOGISTICS LP,
its sole member

By: TESORO LOGISTICS GP, LLC,
its general partner

By: /s/ PHILLIP M. ANDERSON
Phillip M. Anderson
President

SCHEDULE A

STIPULATED VOLUMES

Terminal	**Stipulated Volume (bpd)**
Anchorage	9,000
Boise	7,200
Burley	2,300
Los Angeles	33,300
Mandan	8,900
Salt Lake City	25,300
Stockton	16,000
Vancouver	6,400
TOTAL	108,400

If there are multiple Terminals at any of the above locations, the reference to that location shall include all of such Terminals.

SCHEDULE B

TERMINALS ASSOCIATED WITH REFINERIES

Refineries	**Associated Terminal**
Alaska Refinery	Anchorage Terminal
Anacortes Refinery	Vancouver Terminal
Golden Eagle Refinery	Stockton Terminal
Los Angeles Refinery	Los Angeles Terminal
Mandan Refinery	Mandan Terminal
Salt Lake City Refinery	Salt Lake City, Boise and Burley Terminals

EXHIBIT 1
FORM OF PURCHASE ORDER

PURCHASE ORDER PURSUANT TO MASTER TERMINALLING AGREEMENT

This Terminal Service Order is entered as of ___, 20__, by and among Tesoro Refining & Marketing Company LLC, a Delaware limited liability company ("TRMC"), Tesoro Alaska Company, a Delaware corporation ("TAK" and, together with TRMC, "Tesoro") and Tesoro Logistics Operations LLC, a Delaware limited liability company ("TLO"), pursuant to and in accordance with the terms of the Amended and Restated Master Terminalling Agreement dated as of May __, 2013, but effective as of May 1, 2013, among such parties (the "Agreement).

Capitalized terms not otherwise defined herein shall have the meaning set forth in the Agreement.

Pursuant to Section 5 of the Agreement, the parties hereto agree to the following provisions:

[Insert applicable provisions:

Allocation of storage and throughput capacity for separate Products at each Terminal:

Per-Barrel fees for the volumes Tesoro throughputs at the Terminals:

Dedicated storage tanks and applicable fees:

Allocation of excess capacity and applicable fees:

Ancillary Services and applicable fees:

Surcharges pursuant to Section 6 of the Agreement:

Capital expenditures and related costs subject to reimbursement pursuant to Section 9;

Cleaning of tanks or the conversion of a dedicated tank to storage of a different Product pursuant to Section 9 of the Agreement and applicable fees:

Transmix handling fees pursuant to Section 13 of the Agreement:

Special or proprietary additive injection services or higher additive injection rates pursuant to Sections 16 and 18 and the fees for such services:

Fees for lubricity and conductivity additive and injection services (including for DCA injection) pursuant to Section 17 or 18 of the Agreement:

Fees for operation of special additive equipment pursuant to Section 20:

Receipt, storage and blending of ethanol into Tesoro's gasoline pursuant to Section 21:

Periodic software updates, replacement of loading systems or software or other upgrades pursuant to Section 22 and applicable costs:

Dedicated storage to be provided and applicable fees:

Other:]

Except as set forth in this Terminal Service Order, the other terms of the Agreement shall continue in full force and effect and shall apply to the terms of this Terminal Service Order.

IN WITNESS WHEREOF, the parties hereto have duly executed this Terminal Service Order as of the date first written above [to be effective as of the Effective Date].

TESORO ALASKA COMPANY

By: ______________________________
Gregory J. Goff
President

TESORO REFINING & MARKETING COMPANY LLC

By: ______________________________
Gregory J. Goff
President

TESORO LOGISTICS OPERATIONS LLC

By: TESORO LOGISTICS LP,
its sole member

By: TESORO LOGISTICS GP, LLC,
its general partner

By: ______________________________
Phillip M. Anderson
President

EXHIBIT 2
SHORTFALL PAYMENTS

MTA Contract Shortfall Payment Schedules

1 *Example*

Month 1 - Actual Month		Total	Weighted Average Aggregate Per bbl/bpd			Shortfall = A * 30 days * (B + C) = E Shortfall[1]	
Volume		2,636,173	87,872			(12,128)	A
Terminalling Revenue	$	1,265,363	0.48	B	$	174,637	= B / D * E = F
Ancillary Revenue	$	764,490	0.29	C	$	105,510	= C / D * E = G
Total Fees	**$**	**2,029,853**	**0.77**	D	**$**	**280,147**	= E
Days		*30*					

(1) Minimum Throughput Commitment is 100mbpd

Note: Thirty days will be adjusted to the actual number of days in each month.

Note: Applicable to ONLY TRMC volumes and not third party volumes

A Volume Shortfall in bpd for Actual Month

B Weighted Average Actual Aggregate Terminalling Revenue in bpd (excluding ancillary services) for Actual Month

C Weighted Average Actual Aggregate Ancillary Revenue in bpd for Actual Month

D Total Weighted Average Actual Aggregate Terminalling Service Fee for Actual Month

E Total amount of Shortfall Payment for Actual Month

F Pro Rata portion of Shortfall Payment applicable to Terminalling Revenue (excluding ancillary services)

G Pro Rata portion of Shortfall Payment applicable to Ancillary Revenue

2 *Example Shortfall Payment Credit Application and Expiration*

	Month1	Month2	Month3	Month4	Month5	Month6	Month7	Month8	Month9	Month10
Credit Posted	280,147	-	-	-	-	50,000	-	-	-	-
Excess Amounts	-	20,000	-	-	-	-	20,000	-	-	-

Credit Balance	Month1	Month2	Month3	Month4	Month5	Month6	Month7	Month8	Month9	Month10
Month 1	280,147	280,147	280,147	280,147						
Month 2		-	-	-	-					
Month 3			-	-	-	-				
Month 4				-	-	-	-			
Month 5					-	-	-	-		
Month 6						50,000	50,000	30,000	30,000	
Month 7							-	-	-	-
Month 8								-	-	-
Month 9									-	-
Month 10										-
Beginning Avail	**280,147**	**280,147**	**280,147**	**280,147**	-	**50,000**	**50,000**	**30,000**	**30,000**	-
Beginning	-	280,147	280,147	280,147	-	-	50,000	30,000	30,000	-
Posted	280,147	-	-	-	-	50,000	-	-	-	-
Expired	-	-	-	(280,147)	-	-	-	-	(30,000)	-
Avail for Use	280,147	280,147	280,147	-	-	50,000	50,000	30,000	-	-
Credit Applied	-	20,000	-	-	-	-	20,000	-	-	-
Ending	**280,147**	**280,147**	**280,147**	-	-	**50,000**	**30,000**	**30,000**	-	-

* *Credits Applied will be considered a refund to TRMC*

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Gregory J. Goff, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tesoro Logistics LP;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   (d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2013

/s/ GREGORY J. GOFF

Gregory J. Goff
Chief Executive Officer of Tesoro Logistics GP, LLC
(the general partner of Tesoro Logistics LP)

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, G. Scott Spendlove, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tesoro Logistics LP;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   (d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2013

/s/ G. SCOTT SPENDLOVE

G. Scott Spendlove
Chief Financial Officer of Tesoro Logistics GP, LLC
(the general partner of Tesoro Logistics LP)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Tesoro Logistics LP (the "Partnership") on Form 10-Q for the period ended March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory J. Goff, Chief Executive Officer of Tesoro Logistics GP, LLC, the general partner of the Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ GREGORY J. GOFF

Gregory J. Goff
Chief Executive Officer of Tesoro Logistics GP, LLC
(the general partner of Tesoro Logistics LP)
May 8, 2013

A signed original of this written statement required by Section 906 has been provided to the Partnership and will be retained by the Partnership and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Tesoro Logistics LP (the "Partnership") on Form 10-Q for the period ended March 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, G. Scott Spendlove, Chief Financial Officer of Tesoro Logistics GP, LLC, the general partner of the Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ G. SCOTT SPENDLOVE

G. Scott Spendlove
Chief Financial Officer of Tesoro Logistics GP, LLC
(the general partner of Tesoro Logistics LP)
May 8, 2013

A signed original of this written statement required by Section 906 has been provided to the Partnership and will be retained by the Partnership and furnished to the Securities and Exchange Commission or its staff upon request.