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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2014
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 ☑ 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 ☑ 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 ☐
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 ☑

The registrant had 55,025,795 common units and 1,119,138 general partner units outstanding at July 28, 2014.

TESORO LOGISTICS LP

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in thousands, except unit and per unit amounts)			
REVENUES				
Affiliate	$ 114,214	$ 54,102	$ 223,794	$ 101,994
Third-party	16,111	6,003	31,580	9,733
Total Revenues	130,325	60,105	255,374	111,727
COSTS AND EXPENSES				
Operating and maintenance expenses	53,746	28,889	98,844	48,378
Imbalance settlement gains	(2,700)	(2,576)	(5,117)	(5,000)
General and administrative expenses	12,448	6,851	21,794	12,904
Depreciation and amortization expenses	16,460	7,314	31,985	11,395
Loss (gain) on asset disposals and impairments	132	—	(4,616)	164
Total Costs and Expenses	80,086	40,478	142,890	67,841
OPERATING INCOME	50,239	19,627	112,484	43,886
Interest and financing costs, net	(17,473)	(6,571)	(35,220)	(12,175)
Interest income	—	470	—	493
NET INCOME	$ 32,766	$ 13,526	$ 77,264	$ 32,204
Loss attributable to Predecessor	—	5,647	—	5,647
Net Income attributable to Partners	32,766	19,173	77,264	37,851
General partner's interest in net income, including incentive distribution rights	(7,958)	(1,978)	(14,794)	(3,514)
Limited partners' interest in net income	$ 24,808	$ 17,195	$ 62,470	$ 34,337
Net income per limited partner unit:				
Common - basic	$ 0.45	$ 0.38	$ 1.15	$ 0.77
Common - diluted	$ 0.45	$ 0.38	$ 1.14	$ 0.77
Subordinated - basic and diluted	$ 0.45	$ 0.36	$ 1.13	$ 0.73
Weighted average limited partner units outstanding:				
Common units - basic	46,911,533	30,752,989	43,070,111	29,812,337
Common units - diluted	47,012,424	30,863,138	43,169,298	29,903,780
Subordinated units - basic and diluted	7,543,627	15,254,890	11,377,957	15,254,890
Cash distributions per unit	$ 0.5900	$ 0.4900	$ 1.1550	$ 0.9625

See accompanying notes to condensed combined consolidated financial statements.

TESORO LOGISTICS LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2014	December 31, 2013
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 456	$ 23,203
Receivables, net		
Trade	9,693	9,125
Affiliate	48,308	42,369
Other	17,236	14,000
Current assets held for sale	—	4,903
Prepayments and other	6,062	2,110
Total Current Assets	81,755	95,710
NET PROPERTY, PLANT AND EQUIPMENT	1,414,057	1,368,301
DEPOSIT	214,000	—
GOODWILL	9,228	8,738
OTHER NONCURRENT ASSETS	28,499	29,563
Total Assets	$ 1,747,539	$ 1,502,312
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable		
Trade	$ 33,062	$ 21,412
Affiliate	13,982	13,851
Deferred revenue - affiliate	2,164	2,346
Accrued interest and financing costs	15,962	22,895
Accrued environmental liabilities	15,840	19,741
Other current liabilities	7,601	6,863
Total Current Liabilities	88,611	87,108
OTHER NONCURRENT LIABILITIES	12,619	5,832
DEBT	1,391,079	1,164,020
COMMITMENTS AND CONTINGENCIES (NOTE H)		
EQUITY		
Common unitholders; 54,461,052 units issued and outstanding (39,148,916 in 2013)	304,758	459,261
Subordinated unitholders; 0 units issued and outstanding (15,254,890 in 2013)	—	(161,311)
General partner; 1,110,282 units issued and outstanding (1,110,282 in 2013)	(49,528)	(52,598)
Total Equity	255,230	245,352
Total Liabilities and Equity	$ 1,747,539	$ 1,502,312

See accompanying notes to condensed combined consolidated financial statements.

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

	Six Months Ended June 30,	
	2014	2013
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:	(Dollars in thousands)	
Net income	$ 77,264	$ 32,204
Adjustments to reconcile net income to net cash from (used in) operating activities:		
Depreciation and amortization expenses	31,985	11,395
Amortization of debt issuance costs	1,581	822
Unit-based compensation expense	917	936
Loss (gain) on asset disposals and impairments	(4,616)	164
Changes in current assets and liabilities	(20,483)	(2,913)
Changes in non-current assets and liabilities	2,566	10,466
Net cash from operating activities	89,214	53,074
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Capital expenditures	(63,760)	(26,362)
Capital expenditure reimbursements	11	320
Proceeds from sale of assets	9,721	—
Acquisitions	—	(314,757)
Net cash used in investing activities	(54,028)	(340,799)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Proceeds from issuance of common units, net of issuance costs	379	391,348
Proceeds from issuance of general partner units	8	8,319
Quarterly distributions to unitholders	(63,202)	(43,838)
Quarterly distributions to general partner	(12,332)	(3,066)
Distributions in connection with acquisitions	—	(544,000)
Advance distribution in connection with West Coast Logistics Assets acquisition	(214,000)	—
Borrowings under revolving credit agreement	255,100	544,000
Repayments under revolving credit agreement	(27,500)	—
Payments on capital leases	(130)	(162)
Financing costs	(850)	(3,294)
Capital contributions by affiliate	4,594	2,778
Sponsor contribution of equity to the Predecessor	—	(7,813)
Net cash from (used in) financing activities	(57,933)	344,272
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(22,747)	56,547
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	23,203	19,290
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 456	$ 75,837

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 2013, we entered into two transactions with Tesoro and TLGP, our general partner, pursuant to which TLLP acquired from Tesoro the following:

- six marketing terminals and storage facilities located in Southern California (the “Los Angeles Terminal Assets”) effective June 1, 2013; and
- two marine terminals, a marine storage facility, a products terminal, a petroleum coke handling and storage facility and crude oil and refined products pipelines located in Southern California (the “Los Angeles Logistics Assets”) effective December 6, 2013.

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 and six months ended June 30, 2013 with the exception of the Los Angeles Terminal Assets since they were not operated by Tesoro prior to their acquisition by TLLP. We refer to the historical results of the Los Angeles Logistics Assets, from June 1, 2013 to December 6, 2013, as our “Predecessor.”

The accompanying financial statements and related notes include the combined results of operations and cash flows of our Predecessor at historical cost. The financial statements of our Predecessor 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 Predecessor had been operated as an unaffiliated entity. Our Predecessor did not record revenue for transactions with Tesoro in the Terminalling and Transportation segment.

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. All intercompany accounts and transactions have been eliminated.

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, 2013.

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 amounts of assets and liabilities and revenues and expenses reported as of and 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 Predecessor, for any interim period are not necessarily indicative of results for the full year.

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

- the short term duration of the instruments (none of our trade payables or 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 borrowings under our amended revolving credit facility (the “Revolving Credit Facility”), which include a variable interest rate, approximate fair value. The carrying value and fair value of our total debt were $1.4 billion and $1.5 billion, respectively, as of June 30, 2014, and were both approximately $1.2 billion as of December 31, 2013.

New Accounting Standards

Revenue Recognition

The Financial Accounting Standards Board issued an Accounting Standards Update (“ASU”) in May 2014 which provides accounting guidance for all revenue arising from contracts to provide goods or services to customers. The requirements from the new ASU are effective for interim and annual periods beginning after December 15, 2016, and early adoption is not permitted. The standard allows for either full retrospective adoption or modified retrospective adoption. At this time, we are evaluating the guidance to determine the method of adoption and the impact of this ASU on our financial statements and related disclosures.

NOTE B - ACQUISITIONS

2014 Acquisition

On June 23, 2014, we entered into an agreement with Tesoro to acquire certain terminalling and pipeline assets owned by Tesoro and two of its subsidiaries, Tesoro Refining & Marketing Company LLC and Tesoro Alaska Company LLC. Under the terms of the agreement, TLLP acquired three marketing terminals and a storage facility and will acquire a refined products pipeline (the “West Coast Logistics Assets”) for total consideration of $270.0 million. The operations of the West Coast Logistics Assets will be included in our Terminalling and Transportation segment.

On July 1, 2014, we closed on the purchase of the first portion of the West Coast Logistics Assets in exchange for consideration of $241.4 million, comprised of approximately $214.4 million in cash and the issuance of equity to Tesoro with a fair value of $27.0 million. We borrowed $214.0 million on our Revolving Credit Facility on June 30, 2014, which was immediately distributed to TLGP to finance the transaction. This advance distribution to TLGP was recorded as a deposit in our condensed consolidated balance sheet as of June 30, 2014. The equity was comprised of 370,843 common units and 8,856 general partner units.

The first portion of the West Coast Logistics Assets include:

- a truck terminal and six storage tanks, located in Nikiski, Alaska;
- a truck terminal, rail loading and unloading facility, and four storage tanks with a shell capacity of approximately 1.5 million barrels, all located at Tesoro’s refinery in Anacortes, Washington;
- a truck terminal and rail loading and unloading facility, all located at Tesoro’s refinery in Martinez, California; and
- certain related assets.

We entered into throughput and use agreements with Tesoro for the marketing and storage terminal facilities in connection with the closing of this transaction. The terminalling agreement includes a minimum throughput commitment and the storage agreement requires Tesoro to pay a monthly storage services fee. See Note C for additional information regarding commercial agreements and amendments to other agreements with related parties in connection with the acquisition.

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

TLLP expects to complete the second portion of this acquisition, upon receiving the required regulatory approval from the Regulatory Commission of Alaska, for cash consideration of $28.6 million. The remaining assets consist of all of Tesoro's membership interests in Tesoro Alaska Pipeline Company LLC, a wholly-owned subsidiary of Tesoro, which owns a refined products pipeline connecting Tesoro's Kenai refinery to Anchorage, Alaska.

2013 Acquisitions

Los Angeles Terminal and Los Angeles Logistics Asset Acquisitions

We completed the Acquisitions from Tesoro in 2013 and entered into commercial agreements in connection with the acquisitions under which Tesoro commits to minimum monthly throughput volumes of crude oil and refined products. See our Annual Report on Form 10-K for the year ended December 31, 2013 for additional information regarding the Acquisitions from Tesoro and the commercial agreements executed in connection with these acquisitions.

We have not provided disclosure of pro forma revenues and earnings as if the Acquisitions from Tesoro had occurred prior to 2013 for the three and six months ended June 30, 2013. BP managed and operated the Los Angeles Terminal Assets and the Los Angeles Logistics Assets as part of its refining operations, and historical U.S. GAAP financial information specific to the assets is not available. As a result, preparing pro forma information was determined to be impracticable.

Northwest Products System Acquisition

On June 19, 2013, we purchased a regulated common carrier products pipeline system running from Salt Lake City, Utah to Spokane, Washington ("Northwest Products Pipeline") and three refined products terminals in Boise and Pocatello, Idaho and Pasco, Washington (collectively, the "Northwest Products System") from Chevron Pipe Line Company and Northwest Terminalling Company (collectively, "Chevron"). The total purchase price was $354.8 million. During the second quarter of 2014, evaluations of the fair values related to the acquisition were completed and finalized. The purchase price allocation for the Northwest Products System acquisition is final and is based on estimated fair values of the assets acquired and liabilities assumed at the acquisition date. There were no material purchase price allocation adjustments recorded during the three and six months ended June 30, 2014.

Pursuant to the regulatory review process associated with the Northwest Products System acquisition, we agreed to divest our legacy refined products terminal in Boise, Idaho ("Boise Terminal"). We completed the sale of the Boise Terminal on March 18, 2014. Net proceeds from the sale of the assets were $9.7 million, which resulted in a gain of $4.7 million recorded during the six months ended June 30, 2014.

If the Northwest Products System acquisition had occurred prior to 2013, our pro forma revenues would have been $70.2 million and $133.5 million, respectively, for the three and six months ended June 30, 2013. Our pro forma net income would have been $14.8 million and $36.4 million, respectively, for the three and six months ended June 30, 2013.

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, storage and petroleum-coke handling services and Tesoro commits to minimum monthly throughput volumes of crude oil and refined products. We believe the terms and conditions under these agreements are generally no less favorable to either party than those that could have been negotiated with unaffiliated parties with respect to similar services.

We entered into or amended the following agreements with Tesoro in 2014:

Terminalling Services Agreement - Nikiski. The Partnership entered into a ten-year master terminalling services agreement (the "Nikiski TSA") with Tesoro at the closing of the first portion of the West Coast Logistics Assets acquisition on July 1, 2014. Tesoro has the option to extend the term for up to two renewal terms of five years each. Under the Nikiski TSA, Tesoro pays the Partnership fees for certain terminalling, storage and ancillary services at the Partnership's Nikiski terminal, which was acquired as part of the first portion of the West Coast Logistics Assets acquisition.

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

Terminalling Services Agreement - Anacortes. The Partnership entered into a ten-year master terminalling services agreement (the "Anacortes TSA") with Tesoro at the closing of the first portion of the West Coast Logistics Assets acquisition on July 1, 2014. Tesoro has the option to extend the term for up to two renewal terms of five years each. Under the Anacortes TSA, Tesoro pays the Partnership fees for certain terminalling, storage and ancillary services at the Partnership's Anacortes terminal, which was acquired as part of the first portion of the West Coast Logistics Assets acquisition.

Terminalling Services Agreement - Martinez. The Partnership entered into a ten-year master terminalling services agreement (the "Martinez TSA") with Tesoro at the closing of the first portion of the West Coast Logistics Assets acquisition on July 1, 2014. Tesoro has the option to extend the term for up to two renewal terms of five years each. Under the Martinez TSA, Tesoro pays the Partnership fees for certain terminalling, storage and ancillary services at the Partnership's Martinez terminal, which was acquired as part of the first portion of the West Coast Logistics Assets acquisition.

Storage Services Agreement - Anacortes. The Partnership entered into a ten-year storage services agreement (the "SSA"), with Tesoro with respect to crude and black oil Anacortes storage tanks, which were acquired as a part of the first portion of the West Coast Logistics Assets acquisition on July 1, 2014. Tesoro has the option to extend the term for up to two renewal terms of five years each. Under the SSA, Tesoro pays the Partnership fees for storage and handling services for crude oil, refinery feedstocks and refined products at the Anacortes terminal.

Anacortes Truck Rack Construction Agreement. The Partnership entered into a construction service agreement (the "Construction Agreement") with Tesoro on July 28, 2014. Under the Construction Agreement, effective July 1, 2014, the Partnership will pay Tesoro a fixed fee of $23.0 million for the construction of a new refined products distribution truck rack at the site of Partnership's Anacortes terminal, which was acquired as part of the first portion of the West Coast Logistics Assets acquisition.

Third Amended and Restated Omnibus Agreement. The Partnership entered into an omnibus agreement with Tesoro at the closing of our initial public offering (the "Initial Offering"). The agreement has been amended for each of the Acquisitions from Tesoro, and was most recently amended on July 1, 2014 in connection with the first portion of the West Coast Logistics Assets acquisition (the "Amended Omnibus Agreement"). In addition, the schedules to the Amended Omnibus Agreement were amended and restated, effective July 1, 2014, increasing the annual administrative fee payable by the Partnership to Tesoro under the Amended Omnibus Agreement from $5.5 million as of December 31, 2013 to $5.7 million as of July 1, 2014 for the provision of certain insurance coverage and various general and administrative services, including executive management, legal, accounting, treasury, human resources, health, safety and environmental, information technology, administration and other corporate services. In addition, the Partnership reimburses Tesoro for all other direct or allocated costs and expenses incurred by Tesoro or its affiliates on its behalf.

Under the Amended Omnibus Agreement, Tesoro indemnifies us for certain matters, including environmental, title and tax matters associated with the ownership of our assets acquired from Tesoro, with the exception of the Los Angeles Terminal Assets acquisition and Los Angeles Logistics Assets acquisition, which are covered by the Carson Assets Indemnity Agreement ("Carson Assets Indemnity Agreement"). With respect to certain 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 Amended Omnibus Agreement, the aggregate annual deductible for each type of liability (unknown environmental liabilities or title matters) is $0.6 million, as of July 1, 2014.

Secondment and Logistics Services Agreement. In connection with the acquisition of the first portion of the West Coast Logistics Assets on July 1, 2014, we terminated our Operational Services Agreement and entered into the Secondment and Logistics Services Agreement (the "Secondment Agreement"). Under the Secondment Agreement, employees of Tesoro are seconded to our general partner to provide operational and maintenance services for certain of our pipelines and terminals, and we reimburse our general partner for these costs. During their period of secondment, the seconded employees are under the management and supervision of our general partner. Conversely, employees of TLGP may be seconded to Tesoro to provide operational and maintenance services related to certain assets, for which Tesoro will reimburse our General Partner for the associated costs.

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

Summary of Affiliate Transactions

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	$ 114,214	$ 54,102	$ 223,794	$ 101,994
Operating and maintenance expenses (a)	8,309	9,741	18,580	13,179
General and administrative expenses	9,228	4,047	16,708	6,873

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(a) Operating and maintenance expenses include imbalance settlement gains of $2.7 million and $2.6 million for the three months ended June 30, 2014 and 2013, respectively, and $5.1 million and $5.0 million for the six months ended June 30, 2014 and 2013, respectively.

In accordance with our partnership agreement, our common and general partner interests are entitled to receive quarterly distributions of available cash. In February and May 2014, we paid quarterly cash distributions, of which $34.4 million was paid to Tesoro and TLGP, including incentive distribution rights (“IDRs”). On July 24, 2014, we declared a quarterly cash distribution of $0.615 per unit, which will be paid on August 14, 2014. The distribution will include payment of $20.3 million to Tesoro and TLGP, including IDRs.

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. At June 30, 2014, our participating securities consist of common units, general partner units and IDRs. Net income earned by 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 on the weighted average number of common and subordinated limited partner units outstanding during the period.

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. Distributions less than or greater than earnings are allocated in accordance with our partnership agreement.

Following payment of the cash distribution for the first quarter of 2014 and the attainment of necessary approvals, the requirements for the conversion of all subordinated units were satisfied under the partnership agreement. As a result, effective May 16, 2014, the 15,254,890 subordinated units were converted into common units on a one-for-one basis and thereafter participate on terms equal with all other common units in distributions of available cash. The Partnership’s net income was allocated to the general partner and the limited partners, including the holders of the subordinated units through May 15, 2014, in accordance with our partnership agreement. The conversion did not impact the amount of the cash distribution paid or the total number of the Partnership’s outstanding units representing limited partner interests.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income attributable to partners	$ 32,766	$ 19,173	$ 77,264	$ 37,851
General partner's distributions (including IDRs) (a)	(8,292)	(2,149)	(15,139)	(3,815)
Limited partners' distributions on common units	(29,199)	(16,179)	(52,328)	(31,014)
Limited partners' distributions on subordinated units (b)	(4,641)	(7,780)	(13,641)	(15,255)
Distributions greater than earnings	$ (9,366)	$ (6,935)	$ (3,844)	$ (12,233)
General partner's earnings:				
Distributions (including IDRs) (a)	$ 8,292	$ 2,149	$ 15,139	$ 3,815
Allocation of distributions greater than earnings	(186)	(139)	(77)	(245)
Total general partner's earnings	$ 8,106	$ 2,010	$ 15,062	$ 3,570
Limited partners' earnings on common units:				
Distributions	$ 29,199	$ 16,179	$ 52,328	$ 31,014
Allocation of distributions greater than earnings	(7,908)	(4,543)	(2,980)	(7,930)
Total limited partners' earnings on common units	$ 21,291	$ 11,636	$ 49,348	$ 23,084
Limited partners' earnings on subordinated units (b):				
Distributions	$ 4,641	$ 7,780	$ 13,641	$ 15,255
Allocation of distributions greater than earnings	(1,272)	(2,253)	(787)	(4,058)
Total limited partners' earnings on subordinated units	$ 3,369	$ 5,527	$ 12,854	$ 11,197
Weighted average limited partner units outstanding:				
Common units - basic	46,911,533	30,752,989	43,070,111	29,812,337
Common unit equivalents	100,891	110,149	99,187	91,443
Common units - diluted	47,012,424	30,863,138	43,169,298	29,903,780
Subordinated units - basic and diluted (b)	7,543,627	15,254,890	11,377,957	15,254,890
Net income per limited partner unit (c):				
Common - basic	$ 0.45	$ 0.38	$ 1.15	$ 0.77
Common - diluted	$ 0.45	$ 0.38	$ 1.14	$ 0.77
Subordinated - basic and diluted	$ 0.45	$ 0.36	$ 1.13	$ 0.73

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(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 Note K of our Annual Report on Form 10-K for the year ended December 31, 2013 for further discussion related to IDRs.

(b) On May 16, 2014, the 15,254,890 subordinated units were converted into common units on a one-for-one basis and thereafter participate on terms equal with all other common units in distributions of available cash. Distributions and the Partnership's net income were allocated to the subordinated units through May 15, 2014.

(c) We base our calculation of net income per unit 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 in January 2013, and the conversion of the subordinated units to common units in May 2014, net income per common and subordinated limited partner units may not agree for the periods presented.

NOTE E - PROPERTY, PLANT AND EQUIPMENT

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

	June 30, 2014	December 31, 2013
Crude Oil Gathering	$ 227,202	$ 172,114
Terminalling and Transportation	1,353,957	1,331,387
Gross Property, Plant and Equipment	1,581,159	1,503,501
Accumulated depreciation	(167,102)	(135,200)
Net Property, Plant and Equipment	$ 1,414,057	$ 1,368,301

NOTE F - MAJOR CUSTOMER AND CONCENTRATIONS OF CREDIT RISK

Tesoro accounted for 88% of our total revenues for the three and six months ended June 30, 2014 and 90% and 91% of our total revenues for the three and six months ended June 30, 2013, respectively. The revenues for each period are not comparable as no revenue was recorded by the Predecessor for transactions with Tesoro in the Terminalling and Transportation segment prior to the Acquisitions from Tesoro.

NOTE G - DEBT

Our total debt at June 30, 2014 and December 31, 2013 was comprised of the following (in thousands):

Debt, including current maturities:	June 30, 2014	December 31, 2013
Revolving Credit Facility	$ 227,600	$ —
5.875% TLLP Senior Notes due 2020 (a)	605,251	605,598
6.125% TLLP Senior Notes due 2021	550,000	550,000
Capital lease obligations	8,556	8,745
Total Debt	1,391,407	1,164,343
Current maturities	(328)	(323)
Debt, Less Current Maturities	$ 1,391,079	$ 1,164,020

(a) Includes unamortized premium of $5.3 million and $5.6 million as of June 30, 2014 and December 31, 2013, respectively.

Revolving Credit Facility

As of June 30, 2014, our Revolving Credit Facility provided for total loan availability of $575.0 million, and we are allowed to request that the loan availability be increased up to an aggregate of $650.0 million, subject to receiving increased commitments from the lenders. Our 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. We had $227.6 million of borrowings and $0.3 million in letters of credit outstanding under the Revolving Credit Facility, resulting in a total unused loan availability of $347.1 million as of June 30, 2014. The weighted average interest rate for borrowings under our Revolving Credit Facility was 2.78% as of June 30, 2014. The Revolving Credit Facility is scheduled to mature on December 31, 2017.

As of June 30, 2014, the Revolving Credit Facility 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 (b)	0.16%	2.50%	3.25%	1.50%	0.500%

(b) 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.

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Exchange Offer

The Partnership entered into a registration rights agreement ("Registration Rights Agreement") in connection with the December 2013 private offering of $250.0 million of Senior Notes due 2020 (the "Unregistered Notes"). On July 25, 2014, the Partnership completed an offer to exchange the Unregistered Notes for notes registered under the Securities Act of 1933, as amended (the "Exchange Notes"). The terms of the Exchange Notes are identical in all material respects (including principal amount, interest rate, maturity and redemption rights) to the Unregistered Notes for which they were exchanged, except that the Exchange Notes generally are not subject to transfer restrictions. The exchange offer fulfills all of the requirements of the Registration Rights Agreement for the Unregistered Notes.

Subsidiary Guarantors

The parent company of the Partnership has no independent assets or operations. The Partnership's operations are conducted by its wholly-owned guarantor subsidiaries, other than Tesoro Logistics Finance Corp., an indirect wholly-owned subsidiary of the Partnership whose sole purpose is to act as co-issuer of any debt securities. The guarantees are full and unconditional and joint and several, subject to certain automatic customary releases, including sale, disposition, or transfer of the capital stock or substantially all of the assets of a subsidiary guarantor, exercise of legal defeasance option or covenant defeasance option, and designation of a subsidiary guarantor as unrestricted in accordance with the applicable indenture. There are no significant restrictions on the ability of the Partnership or any guarantor to obtain funds from its subsidiaries by dividend or loan. None of the assets of the Partnership or a guarantor represent restricted net assets pursuant to Rule 4-08(e)(3) of Regulation S-X under the Securities Act.

NOTE H - COMMITMENTS AND CONTINGENCIES

Indemnification

Under the 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 subsequent acquisitions from Tesoro, excluding the Los Angeles Terminal Assets and the Los Angeles Logistics Assets. Under the Carson Assets Indemnity Agreement, Tesoro retained responsibility for remediation of known environmental liabilities due to the use or operation of the Los Angeles Terminal Assets and the Los Angeles Logistics Assets prior to the acquisition dates, and has indemnified the Partnership for any losses incurred by the Partnership arising out of those remediation obligations. See Note J of our Annual Report on Form 10-K for the year ended December 31, 2013 for additional information regarding the terms and conditions of the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement.

Environmental Liabilities

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remedy the effect of the disposal or release of specified substances at current and former operating sites. We have accrued liabilities for these expenses and believe these accruals are adequate based on current information and projections that can be reasonably estimated. Our environmental accruals are based on estimates including engineering assessments, and it is possible that our projections will change and that additional costs will be recorded as more information becomes available. Our accruals for these environmental expenditures totaled $23.0 million and $24.4 million at June 30, 2014 and December 31, 2013, respectively. Changes in our environmental liabilities during the period were as follows (in thousands):

	Tioga Crude Oil Pipeline Release	Chevron Corrective Action Order	Other Liabilities	Total
Balance at December 31, 2013	$ 11,568	$ 8,016	$ 4,856	$ 24,440
Additions	5,636	—	571	6,207
Expenditures	(2,122)	(5,159)	(325)	(7,606)
Balance at June 30, 2014	$ 15,082	$ 2,857	$ 5,102	$ 23,041

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Tioga, North Dakota Crude Oil Pipeline Release

In September 2013, the Partnership responded to the release of approximately 20,000 barrels of crude oil in a rural field northeast of Tioga, North Dakota (the “Crude Oil Pipeline Release”). The environmental liabilities related to the Crude Oil Pipeline Release include amounts estimated for remediation activities that will be conducted during the next few years to restore the site for agricultural use. We accrued an additional $5.6 million during the six months ended June 30, 2014 to reflect improved scope definition and estimates which resulted in an increase in the total estimated cost associated with the project. Probable insurance recoveries related to the Crude Oil Pipeline Release of $17.2 million and $14.0 million were included in other receivables at June 30, 2014 and December 31, 2013, respectively, pursuant to a pollution liability insurance policy, which is subject to a $1.0 million deductible and a $25.0 million loss limit. Through June 30, 2014, we have received insurance proceeds of $2.4 million in reimbursement of costs incurred.

Costs to comply with a safety order related to the Crude Oil Pipeline Release issued by the Pipeline and Hazardous Materials Safety Administration of the U.S. Department of Transportation (“PHMSA”) are not expected to have a material adverse effect on our liquidity, financial position or results of operations.

Chevron Diesel Pipeline Release

On March 18, 2013, Chevron detected and responded to the release of diesel fuel (the “Diesel Pipeline Release”) that occurred near Willard, Utah on the Northwest Products System. As a result of this release, a Corrective Action Order (the “CAO”) was issued on March 22, 2013 by PHMSA. In addition, on April 11, 2013, the Department of Environmental Quality, Division of Water Quality, of the state of Utah issued a notice of violation and compliance order. In accordance with the sale and purchase agreements related to the Northwest Products System acquisition, as amended, Chevron retains financial and operational responsibility to remediate the site of the Diesel Pipeline Release through mid-2015, in addition to paying any monetary fines and penalties assessed by any government authority arising from this incident.

The Partnership assumed responsibility for performing additional testing and associated pipeline repairs on the pipeline pursuant to the CAO upon closing the Northwest Products System acquisition. In connection with the Northwest Products System acquisition, our condensed consolidated balance sheet included $2.9 million and $8.0 million in accrued environmental liabilities related to the CAO at June 30, 2014 and December 31, 2013, respectively, and $4.9 million and $4.7 million in accruals unrelated to the Diesel Pipeline Release included in other noncurrent liabilities at June 30, 2014 and December 31, 2013, respectively.

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 these matters if the amount is probable and can be reasonably estimated. Other than described above, we did not have any material lawsuits, administrative proceedings or governmental investigations.

NOTE I - EQUITY

We had 35,350,338 common public units outstanding as of June 30, 2014. Additionally, Tesoro owned 19,110,714 of our common units and 1,110,282 of our general partner units (the 2% general partner interest) as of June 30, 2014, which together constitutes a 36% ownership interest in us.

Following payment of the cash distribution for the first quarter of 2014 and the attainment of necessary approvals, the requirements for the conversion of all subordinated units were satisfied under the partnership agreement. As a result, effective May 16, 2014, 15,254,890 subordinated units were converted into common units on a one-for-one basis and thereafter participate on terms equal with all other common units in distributions of available cash. The conversion of the subordinated units did not impact the amount of cash distributions paid by the Partnership or the total number of its outstanding units.

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On June 25, 2014, we filed a prospectus supplement to our shelf registration statement filed with the SEC in 2012, authorizing the continuous issuance of up to an aggregate of $200.0 million of common units, in amounts, at prices and on terms to be determined by market conditions and other factors at the time of our offerings (such continuous offering program, or at-the-market program, referred to as our "ATM Program"). During the three months ended June 30, 2014, we issued an aggregate of 5,500 common units under our ATM Program, generating proceeds of approximately $0.4 million, net of offering costs. The net proceeds from these sales will be used for general partnership purposes. We paid fees of $7,903 related to the issuance of units under the ATM Program for the three months ended June 30, 2014. We issued an additional 193,900 common units under this program for net proceeds of $13.6 million (net of offering costs of $0.3 million) that settled in July 2014.

The table below summarizes changes in the number of units outstanding from December 31, 2013 through June 30, 2014 (in units):

	Partnership			
	Common	Subordinated	General Partner	Total
Balance at December 31, 2013	39,148,916	15,254,890	1,110,282	55,514,088
Issuance of units under ATM Program	5,500	—	—	5,500
Unit-based compensation awards (a)	51,746	—	—	51,746
Subordinated unit conversion	15,254,890	(15,254,890)	—	—
Balance at June 30, 2014	54,461,052	—	1,110,282	55,571,334

(a) Unit-based compensation awards are presented net of 22,933 units withheld for taxes.

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

	Partnership			
	Common	Subordinated	General Partner	Total
Balance at December 31, 2013	$ 459,261	$ (161,311)	$ (52,598)	$ 245,352
Equity offering under ATM Program, net of issuance costs	379	—	8	387
Quarterly distributions (b)	(45,583)	(17,619)	(12,332)	(75,534)
Net income attributable to partners	48,681	13,789	14,794	77,264
Other	7,174	(13)	600	7,761
Subordinated unit conversion	(165,154)	165,154	—	—
Balance at June 30, 2014	$ 304,758	$ —	$ (49,528)	$ 255,230

(b) Includes $0.3 million paid for distribution equivalent rights related to unit-based compensation awards vested during the six months ended June 30, 2014.

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 fully allocated to the general partner.

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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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income attributable to partners	$ 32,766	$ 19,173	$ 77,264	$ 37,851
General partner's IDRs	(7,452)	(1,627)	(13,520)	(2,813)
Net income available to partners	$ 25,314	$ 17,546	$ 63,744	$ 35,038
General partner's ownership interest	2.0%	2.0%	2.0%	2.0%
General partner's allocated interest in net income	$ 506	$ 351	$ 1,274	$ 701
General partner's IDRs	7,452	1,627	13,520	2,813
Total general partner's interest in net income	$ 7,958	$ 1,978	$ 14,794	$ 3,514

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. The table below summarizes the quarterly distributions related to our quarterly financial results:

Quarter Ended	Quarterly Distribution Per Unit	Total Cash Distribution including general partner IDRs (in thousands)	Date of Distribution	Unitholders Record Date
December 31, 2013	$ 0.565	$ 36,265	February 13, 2014	February 3, 2014
March 31, 2014	$ 0.590	$ 38,976	May 15, 2014	May 5, 2014
June 30, 2014 (c)	$ 0.615	$ 42,132	August 14, 2014	August 4, 2014

(c) This distribution was declared on July 24, 2014 and will be paid on the date of distribution.

The allocation of total quarterly cash distributions to general and limited partners is as follows for the three and six months ended June 30, 2014 and 2013 (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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
General partner's distributions:				
General partner's distributions	$ 840	$ 522	$ 1,619	$ 1,002
General partner's IDRs	7,452	1,627	13,520	2,813
Total general partner's distributions	8,292	2,149	15,139	3,815
Limited partners' distributions:				
Common	29,199	16,179	52,328	31,014
Subordinated	4,641	7,780	13,641	15,255
Total limited partners' distributions	33,840	23,959	65,969	46,269
Total Cash Distributions	$ 42,132	$ 26,108	$ 81,108	$ 50,084

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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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Performance phantom units	$ 517	$ 442	$ 810	$ 843
Service phantom units	53	52	107	93
Total Unit-Based Compensation Expense	$ 570	$ 494	$ 917	$ 936

Performance Phantom Unit Awards

We granted 39,380 performance phantom unit awards at a grant date fair value of $67.97 in February 2014. The estimated fair value of these awards is amortized over a three-year vesting period using the straight-line method.

Service Phantom Unit Awards

We granted approximately 3,324 service phantom unit awards to non-employee directors at a grant date fair value of $58.13 in February 2014. The estimated fair value of these awards is amortized over a one-year vesting period using the straight-line method.

NOTE K - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash activities include interest paid, net of capitalized interest, of $40.5 million and $12.0 million for the six months ended June 30, 2014 and 2013, respectively. Supplemental disclosure of non-cash activities is as follows (in thousands):

	Six Months Ended June 30,	
	2014	2013
Assets received for deposit paid in prior period	$ —	$ 40,000
Capital expenditures included in accounts payable	21,737	11,333
Receivable from affiliate for capital expenditures	4,167	1,120
Capital leases and other	3,950	5,026

NOTE L - SEGMENT DISCLOSURES

Our revenues are derived from two operating segments: Crude Oil Gathering and Terminalling and Transportation. 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 and Transportation segment consists of:

- the Northwest Products Pipeline, which includes 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;
- 19 crude oil and refined products terminals and storage facilities in the western and midwestern U.S.;
- four marine terminals in California;
- a rail-car unloading facility in Washington;
- a petroleum coke handling and storage facility in Los Angeles; and
- other pipelines which transport products and crude oil from Tesoro’s refineries to nearby facilities in Salt Lake City and Los Angeles.

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. We do not have any foreign operations.

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Our operating segments are strategic business units that offer different services. 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.

Segment information is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
REVENUES				
Crude Oil Gathering:				
Affiliate	$ 25,115	$ 20,529	$ 48,366	$ 41,906
Third-party	1,968	416	3,341	730
Total Crude Oil Gathering	27,083	20,945	51,707	42,636
Terminalling and Transportation:				
Affiliate (a)	89,099	33,573	175,428	60,088
Third-party	14,143	5,587	28,239	9,003
Total Terminalling and Transportation	103,242	39,160	203,667	69,091
Total Segment Revenues	$ 130,325	$ 60,105	$ 255,374	$ 111,727
OPERATING INCOME				
Crude Oil Gathering	$ 11,925	$ 7,688	$ 22,939	$ 16,715
Terminalling and Transportation	43,026	16,043	97,436	35,592
Total Segment Operating Income	54,951	23,731	120,375	52,307
Unallocated general and administrative expenses	(4,712)	(4,104)	(7,891)	(8,421)
Interest and financing costs, net	(17,473)	(6,571)	(35,220)	(12,175)
Interest income	—	470	—	493
NET INCOME	$ 32,766	$ 13,526	$ 77,264	$ 32,204
CAPITAL EXPENDITURES				
Crude Oil Gathering	$ 33,667	$ 14,924	$ 51,322	$ 18,869
Terminalling and Transportation	13,878	7,510	22,707	13,801
Total Capital Expenditures	$ 47,545	$ 22,434	$ 74,029	$ 32,670

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

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

Identifiable Assets	June 30, 2014	December 31, 2013
Crude Oil Gathering	$ 212,603	$ 154,583
Terminalling and Transportation	1,503,002	1,299,310
Other	31,934	48,419
Total Identifiable Assets	$ 1,747,539	$ 1,502,312

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.

As part of our strategy to make capital investments to expand our existing asset base, we entered into two transactions with Tesoro and Tesoro Logistics GP, LLC ("TLGP"), our general partner, pursuant to which TLLP acquired the following from Tesoro in 2013:

- *six marketing terminals and storage facilities located in Southern California (the "Los Angeles Terminal Assets") effective June 1, 2013; and*
- *two marine terminals, a marine storage facility, a products terminal, a petroleum coke handling and storage facility and crude oil and refined products pipelines located in Southern California (the "Los Angeles Logistics Assets") effective December 6, 2013.*

These transactions are collectively referred to as "Acquisitions from Tesoro" and 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 and six months ended June 30, 2013 with the exception of the Los Angeles Terminal Assets since they were not operated by Tesoro prior to their acquisition by TLLP. We refer to the historical results of the Los Angeles Logistics Assets, prior to December 6, 2013, as our "Predecessor." Our financial results may not be comparable as our Predecessor 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, 2013.

On June 19, 2013, we purchased a regulated common carrier products pipeline system running from Salt Lake City, Utah to Spokane, Washington ("Northwest Products Pipeline") and three refined products terminals in Boise and Pocatello, Idaho and Pasco, Washington (collectively, the "Northwest Products System") from Chevron Pipe Line Company and Northwest Terminalling Company (collectively, "Chevron").

The Acquisitions from Tesoro and the acquisition of the Northwest Products System are collectively referred to as the "2013 Acquisitions."

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 37 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, 2013.

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 and operations are categorized into a Crude Oil Gathering segment and a Terminalling and Transportation segment.

Our financial information includes the historical results of our Predecessor (for the three and six months ended June 30, 2013) and the results of TLLP (for all periods presented). The financial statements of our Predecessor 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 Predecessor had been operated as an unaffiliated entity. Most notably, this applies to the revenue associated with the terms of the commercial agreements as our Predecessor did not record revenues for transactions with Tesoro in the Terminalling and Transportation segment for assets acquired in the Los Angeles Logistics Assets acquisition.

We generate revenue by charging fees for gathering 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 and six months ended June 30, 2014, 88% 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.

We have been implementing our strategy and goals discussed above, allowing us to steadily increase our cash flow available to be distributed to unitholders ("Distributable Cash Flow") and increase our distributions by 21% over the last year.

Relative to these goals, in 2014, we intend to continue to implement this strategy and have announced plans to:

- expand our assets on our crude oil gathering system (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 utilization of our proprietary truck fleet, which should generate cost and operating efficiencies;
    - expanding capacity on the recently reversed segment of our High Plains pipeline; and
    - adding other origin and destination points on the High Plains System to increase volumes.
- increase our terminalling volumes by expanding capacity and growing our third-party services at certain of our terminals;
- optimize Tesoro volumes and grow third-party volumes at our recently acquired Los Angeles Terminal and Logistics Assets; and
- complete the construction of a waxy crude oil unloading facility in Salt Lake City.

In April 2014, we successfully concluded our first open season for the High Plains pipeline expansion. We received commitments for nearly all of the offered capacity of 70,000 barrels per day ("bpd") to move crude oil from various locations south of Lake Sakakawea to Ramberg Station in North Dakota. We are progressing through the open season regulatory process and expect to commence shipments during the third quarter of 2014 in conjunction with the completion of the High Plains pipeline reversal project. Committed shippers have received notification and the petition for declaratory order from the Federal Energy Regulatory Commission ("FERC") has been filed.

In May 2014, we successfully concluded our second open season after receiving sufficient commitments from third party shippers to warrant construction of a pipeline gathering system ("Connolly Gathering System"), formerly referred to as the "Dunn County Gathering System", by our wholly-owned subsidiary Tesoro High Plains Pipeline Company LLC ("THPP"). The Connolly Gathering System will gather crude oil from various points in Dunn County, North Dakota for delivery to a central delivery point at the existing Connolly Station, on THPP's pipeline system. Construction began in July 2014 with targeted completion by the end of 2015. The capacity of the gathering system's main delivery line will be approximately 60,000 bpd to accommodate estimated peak production of crude oil from the area; the capacity of each individual lateral will correspond to commitments received from third party shippers in each geographical area. Committed shippers have received notification and the petition for declaratory order from the FERC has been filed.

On June 23, 2014, we entered into an agreement with Tesoro to acquire certain terminalling and pipeline assets owned by Tesoro and two of its subsidiaries, Tesoro Refining & Marketing Company LLC and Tesoro Alaska Company LLC. Under the terms of the agreement, TLLP acquired three marketing terminals and a storage facility and will acquire a refined products pipeline (the "West Coast Logistics Assets") for total consideration of $270.0 million. The operations of the West Coast Logistics Assets will be included in our Terminalling and Transportation segment. The assets will be acquired in two stages.

On July 1, 2014, we closed on the purchase of the first portion of the West Coast Logistics Assets in exchange for consideration of $241.4 million, comprised of approximately $214.4 million in cash and the issuance of equity to Tesoro with a fair value of $27.0 million. We borrowed $214.0 million on our revolving credit facility (the “Revolving Credit Facility”) on June 30, 2014, which was immediately distributed to TLGP to finance the transaction. This advance distribution to TLGP was recorded as a deposit in our condensed consolidated balance sheet as of June 30, 2014. The equity was comprised of 370,843 common units and 8,856 general partner units.

The first portion of the West Coast Logistics Assets include:

- a truck terminal and six storage tanks, located in Nikiski, Alaska;
- a truck terminal, rail loading and unloading facility, and four storage tanks with a shell capacity of approximately 1.5 million barrels, all located at Tesoro’s refinery in Anacortes, Washington;
- a truck terminal and rail loading and unloading facility, all located at Tesoro’s refinery in Martinez, California; and
- certain related assets.

TLLP expects to complete the second portion of this acquisition in the third quarter or early in the fourth quarter of 2014, upon receiving the required regulatory approval from the Regulatory Commission of Alaska, for cash consideration of $28.6 million. The remaining assets consist of all of Tesoro’s membership interests in Tesoro Alaska Pipeline Company LLC, a wholly-owned subsidiary of Tesoro, which owns an approximately 70 mile long common carrier refined products pipeline connecting Tesoro’s Kenai refinery to Anchorage, Alaska with expected average throughput of approximately 35,000 barrels per day.

In addition, TLLP plans to develop a new truck rack at the site of the acquired Anacortes terminal which is expected to add an additional 6,000 to 7,000 bpd of throughput.

Agreements with Tesoro

The Partnership has various long-term, fee-based commercial agreements with Tesoro under which we provide pipeline transportation, trucking, terminal distribution, storage and petroleum-coke handling services and Tesoro commits to 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.

We entered into or amended the following agreements with Tesoro in 2014:

Terminalling Services Agreement - Nikiski. The Partnership entered into a ten-year master terminalling services agreement (the “Nikiski TSA”) with Tesoro at the closing of the first portion of the West Coast Logistics Assets acquisition on July 1, 2014. Tesoro has the option to extend the term for up to two renewal terms of five years each. Under the Nikiski TSA, Tesoro pays the Partnership fees for certain terminalling, storage and ancillary services at the Partnership’s Nikiski terminal, which was acquired as part of the first portion of the West Coast Logistics Assets acquisition.

Terminalling Services Agreement - Anacortes. The Partnership entered into a ten-year master terminalling services agreement (the “Anacortes TSA”) with Tesoro at the closing of the first portion of the West Coast Logistics Assets acquisition on July 1, 2014. Tesoro has the option to extend the term for up to two renewal terms of five years each. Under the Anacortes TSA, Tesoro pays the Partnership fees for certain terminalling, storage and ancillary services at the Partnership’s Anacortes terminal, which was acquired as part of the first portion of the West Coast Logistics Assets acquisition.

Terminalling Services Agreement - Martinez. The Partnership entered into a ten-year master terminalling services agreement (the “Martinez TSA”) with Tesoro at the closing of the first portion of the West Coast Logistics Assets acquisition on July 1, 2014. Tesoro has the option to extend the term for up to two renewal terms of five years each. Under the Martinez TSA, Tesoro pays the Partnership fees for certain terminalling, storage and ancillary services at the Partnership’s Martinez terminal, which was acquired as part of the first portion of the West Coast Logistics Assets acquisition.

Storage Services Agreement - Anacortes. The Partnership entered into a ten-year storage services agreement (the “SSA”), with Tesoro with respect to crude and black oil Anacortes storage tanks, which were acquired as a part of the first portion of the West Coast Logistics Assets acquisition on July 1, 2014. Tesoro has the option to extend the term for up to two renewal terms of five years each. Under the SSA, Tesoro pays the Partnership fees for storage and handling services for crude oil, refinery feedstocks and refined products at the Anacortes terminal.

Anacortes Truck Rack Construction Agreement. The Partnership entered into a construction service agreement (the "Construction Agreement") with Tesoro on July 28, 2014. Under the Construction Agreement, effective July 1, 2014, the Partnership will pay Tesoro a fixed fee of $23.0 million for the construction of a new refined products distribution truck rack at the site of Partnership's Anacortes terminal, which was acquired as part of the first portion of the West Coast Logistics Assets acquisition.

Third Amended and Restated Omnibus Agreement. The Partnership entered into an omnibus agreement with Tesoro at the closing of our initial public offering (the "Initial Offering"). The agreement has been amended for each of the Acquisitions from Tesoro, and was most recently amended on July 1, 2014 in connection with the first portion of the West Coast Logistics Assets acquisition (the "Amended Omnibus Agreement"). In addition, the schedules to the Amended Omnibus Agreement were amended and restated, effective July 1, 2014, increasing the annual administrative fee payable by the Partnership to Tesoro under the Amended Omnibus Agreement from $5.5 million as of December 31, 2013 to $5.7 million as of July 1, 2014 for the provision of certain insurance coverage and various general and administrative services, including executive management, legal, accounting, treasury, human resources, health, safety and environmental, information technology, administration and other corporate services. In addition, the Partnership reimburses Tesoro for all other direct or allocated costs and expenses incurred by Tesoro or its affiliates on its behalf.

Under the Amended Omnibus Agreement, Tesoro indemnifies us for certain matters, including environmental, title and tax matters associated with the ownership of our assets acquired from Tesoro, with the exception of the Los Angeles Terminal Assets acquisition and Los Angeles Logistics Assets acquisition, which are covered by the Carson Assets Indemnity Agreement ("Carson Assets Indemnity Agreement"). With respect to certain 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 Amended Omnibus Agreement, the aggregate annual deductible for each type of liability (unknown environmental liabilities or title matters) is $0.6 million, as of July 1, 2014.

Secondment and Logistics Services Agreement. In connection with the acquisition of the first portion of the West Coast Logistics Assets on July 1, 2014, we terminated our Operational Services Agreement and entered into the Secondment and Logistics Services Agreement (the "Secondment Agreement"). Under the Secondment Agreement, employees of Tesoro are seconded to our general partner to provide operational and maintenance services for certain of our pipelines and terminals, and we reimburse our general partner for these costs. During their period of secondment, the seconded employees are under the management and supervision of our general partner. Conversely, employees of TLGP may be seconded to Tesoro to provide operational and maintenance services related to certain assets, for which Tesoro will reimburse our General Partner for the associated costs.

Non-GAAP Financial Measures

Our management uses a variety of financial and operating measures to analyze operating segment performance. Our management also uses additional measures that are known as "non-GAAP" financial measures in its evaluation of past performance and prospects for the future to supplement our financial information presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). 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 adjusted EBITDA as EBITDA plus any loss (gain) on asset disposals and impairments and expenses incurred for the inspection and maintenance program associated with the Northwest Products System. We define Distributable Cash Flow as adjusted EBITDA less maintenance capital expenditures and net interest and financing costs, plus reimbursement by our customers for certain maintenance capital expenditures, non-cash unit-based compensation expense, proceeds from sale of assets, the change in deferred revenue and interest income. EBITDA, adjusted 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 and adjusted EBITDA will provide useful information to investors in assessing our results of operations. The U.S. GAAP measures most directly comparable to EBITDA and adjusted 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 and adjusted EBITDA should not be considered as an alternative to U.S. GAAP net income or net cash from operating activities. EBITDA and adjusted EBITDA have important limitations as analytical tools, because they exclude 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. The amounts included in the calculation of Distributable Cash Flow are derived from amounts separately presented in our condensed combined consolidated financial statements, with the exception of the change in deferred revenue, maintenance capital expenditures and reimbursement by our customers for certain maintenance capital expenditures.

We also include capital expenditures excluding the results of our Predecessor. We believe that the presentation of our capital expenditures excluding results of our Predecessor will provide useful information to investors in assessing our financial condition.

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.

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 Predecessor for the three and six months ended June 30, 2013 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 and six months ended June 30, 2014 and 2013, including a reconciliation of EBITDA and adjusted 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 Predecessor recorded revenues and 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, 2013 for further information.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
REVENUES		*(Including Predecessor)*		*(Including Predecessor)*
Crude Oil Gathering	$ 27,083	$ 20,945	$ 51,707	$ 42,636
Terminalling and Transportation	103,242	39,160	203,667	69,091
Total Revenues	130,325	60,105	255,374	111,727
COSTS AND EXPENSES				
Operating and maintenance expenses (a)	51,046	26,313	93,727	43,378
General and administrative expenses	12,448	6,851	21,794	12,904
Depreciation and amortization expenses	16,460	7,314	31,985	11,395
Loss (gain) on asset disposals and impairments	132	—	(4,616)	164
Total Costs and Expenses	80,086	40,478	142,890	67,841
OPERATING INCOME	50,239	19,627	112,484	43,886
Interest and financing costs, net	(17,473)	(6,571)	(35,220)	(12,175)
Interest income	—	470	—	493
NET INCOME	$ 32,766	$ 13,526	$ 77,264	$ 32,204
Loss attributable to Predecessor	—	5,647	—	5,647
Net Income attributable to Partners	32,766	19,173	77,264	37,851
General partner's interest in net income, including incentive distribution rights	(7,958)	(1,978)	(14,794)	(3,514)
Limited partners' interest in net income	$ 24,808	$ 17,195	$ 62,470	$ 34,337
Net income per limited partner unit (b):				
Common - basic	$ 0.45	$ 0.38	$ 1.15	$ 0.77
Common - diluted	$ 0.45	$ 0.38	$ 1.14	$ 0.77
Subordinated - basic and diluted	$ 0.45	$ 0.36	$ 1.13	$ 0.73
Weighted average limited partner units outstanding:				
Common units - basic	46,911,533	30,752,989	43,070,111	29,812,337
Common units - diluted	47,012,424	30,863,138	43,169,298	29,903,780
Subordinated units - basic and diluted	7,543,627	15,254,890	11,377,957	15,254,890
EBITDA (c)	$ 66,699	$ 26,941	$ 144,469	$ 55,281
Adjusted EBITDA (c)	$ 69,620	$ 26,941	$ 144,791	$ 55,445
Distributable Cash Flow (c)	$ 49,550	$ 20,043	$ 115,570	$ 43,066

See page 25 for footnotes to this table.

Reconciliation of EBITDA and Distributable Cash Flow to Net Income:	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013 (Including Predecessor)	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013 (Including Predecessor)
Net income	$ 32,766	$ 13,526	$ 77,264	$ 32,204
Depreciation and amortization expenses	16,460	7,314	31,985	11,395
Interest and financing costs, net	17,473	6,571	35,220	12,175
Interest income	—	(470)	—	(493)
EBITDA (c)	$ 66,699	$ 26,941	$ 144,469	$ 55,281
Loss (gain) on asset disposals and impairments	132	—	(4,616)	164
Inspection and maintenance capital expenses associated with the Northwest Products System	2,789	—	4,938	—
Adjusted EBITDA (c)	69,620	26,941	144,791	55,445
Interest and financing costs, net	(17,473)	(6,571)	(35,220)	(12,175)
Proceeds from sale of assets	—	—	9,721	—
Maintenance capital expenditures (d)	(4,628)	(4,437)	(6,292)	(6,333)
Reimbursement for maintenance capital expenditures (d)	1,011	2,404	1,497	3,587
Non-cash unit-based compensation expense	570	490	917	920
Change in deferred revenue	450	746	156	1,129
Interest income	—	470	—	493
Distributable Cash Flow (c)	$ 49,550	$ 20,043	$ 115,570	$ 43,066
Reconciliation of EBITDA to Net Cash from Operating Activities:				
Net cash from operating activities	$ 18,543	$ 23,370	$ 89,214	$ 53,074
Interest and financing costs, net	17,473	6,571	35,220	12,175
Changes in assets and liabilities	32,179	(1,630)	17,917	(7,553)
Gain (loss) on asset disposals and impairments	(132)	—	4,616	(164)
Amortization of debt issuance costs	(794)	(406)	(1,581)	(822)
Unit-based compensation expense	(570)	(494)	(917)	(936)
Interest income	—	(470)	—	(493)
EBITDA (c)	$ 66,699	$ 26,941	$ 144,469	$ 55,281

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(a) Operating and maintenance expenses include imbalance settlement gains of $2.7 million and $2.6 million in the three months ended June 30, 2014 and 2013, respectively, and $5.1 million and $5.0 million in the six months ended June 30, 2014 and 2013, respectively.

(b) TLLP excludes losses attributable to Predecessor from its calculation of net income per limited partner unit in accordance with the partnership agreement. The table below provides supplemental presentation of net income per limited partner unit, as adjusted, using the Net Income shown above. This supplemental information assumes the common unitholders, subordinated unitholders and General Partner participated in the pre-acquisition date losses attributable to the Predecessor for the three and six months ended June 30, 2013. There were no losses attributable to the Predecessor for the three and six months ended June 30, 2014.

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Adjusted Net Income Per Limited Partner Unit:		
Common - basic and diluted	$0.26	$0.65
Subordinated - basic and diluted	$0.24	$0.61

(c) For a definition of EBITDA, Adjusted EBITDA and Distributable Cash Flow, see “Non-GAAP Financial Measures.”

(d) Maintenance capital expenditures include expenditures required to ensure the safety, reliability, integrity and regulatory compliance of our assets.

Summary

Our net income for the three months ended June 30, 2014 ("2014 Quarter") increased $19.3 million, or 142%, to $32.8 million from $13.5 million for the three months ended June 30, 2013 ("2013 Quarter"). The increase in net income was primarily due to an increase in revenue of $70.2 million, or 117%, to $130.3 million driven by revenue generated in the 2014 Quarter under new commercial agreements entered into in conjunction with the 2013 Acquisitions. The increase in revenue was partially offset by:

- an increase in operating and maintenance expenses of $24.7 million, or 94%, primarily related to costs associated with operations of the assets acquired in the 2013 Acquisitions;
- an increase in net interest and financing costs of $10.9 million related to the increase in outstanding debt in the 2014 Quarter as a result of the issuance of $800.0 million of senior notes ("Senior Notes") used to fund the 2013 Acquisitions from Tesoro;
- an increase in depreciation expense of $9.1 million, or 125% associated with the increase in depreciable assets as a result of the 2013 Acquisitions; and
- an increase in general and administrative expenses of $5.6 million, or 82%, primarily related to higher allocated overhead to support the Partnership's growing business.

Our net income for the six months ended June 30, 2014 ("2014 Period") increased $45.1 million, or 140%, to $77.3 million from $32.2 million for the six months ended June 30, 2013 ("2013 Period"). The increase in net income was primarily due to an increase in revenue of $143.6 million, or 129%, to $255.4 million driven by revenue generated in the 2014 Period under new commercial agreements entered into in conjunction with the 2013 Acquisitions. In addition, we recognized a gain of $4.7 million related to the sale of our legacy refined products terminal in Boise, Idaho ("Boise Terminal") during the 2014 Period. The increase in revenue and gain recognized during the 2014 Period were partially offset by:

- an increase in operating and maintenance expenses of $50.3 million, or 116%, mainly related to costs associated with operations of the assets acquired in the 2013 Acquisition;
- an increase in net interest and financing costs of $23.0 million related to the increase in outstanding debt in the 2014 Period as a result of the issuance of $800.0 million of Senior Notes used to fund the 2013 Acquisitions from Tesoro;
- an increase in depreciation expense of $20.6 million, or 181%, primarily associated with the increase in depreciable assets as a result of the 2013 Acquisitions; and
- an increase in general and administrative expenses of $8.9 million, or 69%, primarily related to higher allocated overhead to support the Partnership's growing business.

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 and six months ended June 30, 2014 and 2013 (in thousands, except barrel and per barrel amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
REVENUES				
Pipeline revenues	$ 13,304	$ 9,048	$ 25,119	$ 18,489
Trucking revenues	13,779	11,897	26,588	24,147
Total Revenues	27,083	20,945	51,707	42,636
COSTS AND EXPENSES				
Operating and maintenance expenses (a)	13,842	11,467	24,777	22,431
General and administrative expenses	152	761	1,804	1,455
Depreciation and amortization expenses	1,032	1,029	2,055	2,035
Loss on asset disposals and impairments	132	—	132	—
Total Costs and Expenses	15,158	13,257	28,768	25,921
CRUDE OIL GATHERING SEGMENT OPERATING INCOME	$ 11,925	$ 7,688	$ 22,939	$ 16,715
VOLUMES (bpd)				
Pipeline throughput	108,848	80,543	103,449	81,445
Average pipeline revenue per barrel (b)	$ 1.34	$ 1.23	$ 1.34	$ 1.25
Trucking volume	46,884	42,084	45,798	43,497
Average trucking revenue per barrel (b)	$ 3.23	$ 3.11	$ 3.21	$ 3.07

(a) Operating and maintenance expenses include imbalance settlement gains of $1.5 million for both the three months ended June 30, 2014 and 2013 and $2.6 million and $2.9 million in the six months ended June 30, 2014 and 2013, respectively.

(b) 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; other 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 June 30, 2014 Compared to Three Months Ended June 30, 2013

Volumes. Average pipeline throughput volumes increased 28,305 bpd, or 35%, in the 2014 Quarter as a result of the expansion of our High Plains System. This includes a 7,337 bpd increase in third-party volumes during the 2014 Quarter reflecting the continued capture of incremental volume on the High Plains Pipeline in North Dakota through the addition of new capacity associated with the initial phase of the High Plains Pipeline reversal project and contributions from the initial build-out of the Bakken Area Storage Hub. Trucking throughput volumes increased 4,800 during the 2014 Quarter as compared to the 2013 Quarter, which includes a 4,031 bpd increase in volumes hauled by our proprietary fleet consistent with our strategy to expand the utilization of our proprietary fleet in order to generate cost and operating efficiencies.

Financial Results. Revenues increased $6.2 million, or 29%, to $27.1 million for the 2014 Quarter compared to $20.9 million in the 2013 Quarter. Pipeline and trucking revenues increased $4.3 million and $1.9 million, respectively, compared to the 2013 Quarter primarily as a result of higher pipeline throughput and trucking volumes.

Operating and maintenance expenses increased $2.3 million, or 21%, to $13.8 million in the 2014 Quarter compared to $11.5 million in the 2013 Quarter primarily related to higher repair and maintenance costs associated with increased throughput on the High Plains System.

General and administrative expenses decreased $0.6 million, or 80% to $0.2 million in the 2014 Quarter compared to $0.8 million in the 2013 Quarter due to a revision to our overhead allocation methodology during the 2014 Quarter.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Volumes. Average pipeline throughput volumes increased 22,004 bpd, or 27%, in the 2014 Period primarily as a result of higher volumes to existing destinations, which includes a 6,520 bpd increase in third-party volumes. Trucking throughput volumes increased by 2,301 bpd during the 2014 Period compared to the 2013 Period. The increase in pipeline and trucking throughput reflects incremental volume on the High Plains Pipeline through the addition of new capacity associated with the initial phase of the High Plains Pipeline reversal project and contributions from the initial build-out of the Bakken Area Storage Hub during the 2014 Period.

Financial Results. Revenues increased $9.1 million, or 21%, to $51.7 million for the 2014 Period compared to $42.6 million in the 2013 Period. Pipeline and trucking revenues increased $6.6 million and $2.4 million, respectively, compared to the 2013 Period primarily as a result of the increase of 22,004 bpd for pipeline throughput and 2,301 bpd for trucking volumes.

Operating and maintenance expenses increased $2.4 million, or 10%, to $24.8 million in the 2014 Period compared to $22.4 million in the 2013 Period predominantly attributable to increased costs associated with increased throughput on the High Plains System and the growth of our trucking operations including our proprietary truck fleet.

General and administrative expenses increased $0.3 million, or 24% to $1.8 million in the 2014 Period compared to $1.5 million in the 2013 Period due to increased allocated overhead to support the growth of our Crude Oil Gathering operations.

Terminalling and Transportation Segment

The following table and discussion is an explanation of our results of operations of the Terminalling and Transportation segment for the three and six months ended June 30, 2014 and 2013 (in thousands, except barrel and per barrel amounts). Our financial information includes the historical results of our Predecessor (for the three and six months ended June 30, 2013) 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, 2013 for further information.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
REVENUES (a)		*(Including Predecessor)*		*(Including Predecessor)*
Terminalling revenues	$ 79,143	$ 36,326	$ 154,940	$ 64,250
Pipeline transportation revenues	24,099	2,834	48,727	4,841
Total Revenues	103,242	39,160	203,667	69,091
COSTS AND EXPENSES				
Operating and maintenance expenses (b)	37,204	14,846	68,950	20,947
General and administrative expenses	7,584	1,986	12,099	3,028
Depreciation and amortization expenses	15,428	6,285	29,930	9,360
Loss (gain) on asset disposals and impairments	—	—	(4,748)	164
Total Costs and Expenses	60,216	23,117	106,231	33,499
TERMINALLING AND TRANSPORTATION SEGMENT OPERATING INCOME	$ 43,026	$ 16,043	$ 97,436	$ 35,592
VOLUMES (bpd)				
Terminalling throughput	889,596	553,056	883,825	472,746
Average terminalling revenue per barrel (a) (c)	$ 0.98	$ 0.72	$ 0.97	$ 0.75
Pipeline transportation throughput	772,483	85,476	778,698	88,005
Average pipeline transportation revenue per barrel (a) (c)	$ 0.34	$ 0.36	$ 0.35	$ 0.30

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(a) Our Predecessor did not record revenue for transactions with Tesoro in the Terminalling and Transportation segment for assets acquired in the Los Angeles Logistics Assets acquisition prior to the date of acquisition. Volumes for all periods presented include both affiliate and third-party throughput.

(b) Operating and maintenance expenses include imbalance settlement gains of $1.2 million and $1.1 million for the three months ended June 30, 2014 and 2013, respectively, and $2.5 million and $2.1 million in the six months ended June 30, 2014 and 2013, respectively.

(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; other 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 June 30, 2014 Compared to Three Months Ended June 30, 2013

Volumes. Terminalling throughput volumes increased 336,540 bpd, or 61%, in the 2014 Quarter compared to the 2013 Quarter primarily as a result of the 2013 Acquisitions. The increase in throughput related to the new terminals acquired in 2013. Pipeline transportation throughput volumes increased 687,007 bpd in the 2014 Quarter compared to the 2013 Quarter as a result of the pipeline assets acquired in the Northwest Products System acquisition and the Los Angeles Logistics Assets acquisition. The volumes reflect operations of the Northwest Products System for the entire 2014 Quarter, compared to less than a month of operations in the 2013 Quarter.

Financial Results. Revenues increased $64.0 million, or 164%, to $103.2 million in the 2014 Quarter compared to $39.2 million in the 2013 Quarter primarily as a result of the new commercial agreements that went into effect in connection with the 2013 Acquisitions, which accounted for approximately $63.0 million of the revenue increase compared to the 2013 Quarter. The results for the 2014 Quarter include a full quarter of revenues for the 2013 Acquisitions, which were acquired late in the second quarter of 2013, compared to less than a month of revenues in the 2013 Quarter.

Operating and maintenance expenses increased $22.4 million, or 151%, to $37.2 million in the 2014 Quarter from $14.8 million in the 2013 Quarter primarily as a result of an increase of $26.4 million associated with a full quarter of operations of the 2013 Acquisitions in the 2014 Quarter compared to the 2013 Quarter.

General and administrative expense increased $5.6 million to $7.6 million in the 2014 Quarter compared to $2.0 million in the 2013 Quarter due to increased expenses for certain allocated overhead costs associated with the 2013 Acquisitions.

Depreciation and amortization expenses increased $9.1 million to $15.4 million in the 2014 Quarter from $6.3 million in the 2013 Quarter. The increase is attributable to depreciation expense related to the 2013 Acquisitions. The 2013 Quarter includes depreciation expense for the Northwest Products System from the acquisition date on June 19, 2013 and the Los Angeles Terminal Assets from the acquisition date on June 1, 2013. The 2014 Quarter results include three months of depreciation for the assets acquired in 2013.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Volumes. Terminalling throughput volumes increased 411,079 bpd, or 87%, in the 2014 Period compared to the 2013 Period as a result of the 2013 Acquisitions. The increase in throughput related to the new terminals acquired in 2013. Pipeline transportation throughput volumes increased 690,693 bpd, or 785%, in the 2014 Period compared to the 2013 Period as a result of the pipeline assets acquired in the Northwest Products System acquisition and the Los Angeles Logistics Assets acquisition. The volumes reflect operations of the Northwest Products System for the entire 2014 Period, compared to less than a month of operations in the 2013 Period.

Financial Results. Revenues increased $134.6 million to $203.7 million in the 2014 Period compared to $69.1 million in the 2013 Period primarily as a result of the new commercial agreements that went into effect in connection with the 2013 Acquisitions, which accounted for approximately $133.3 million of the revenue increase compared to the 2013 Period. The results reflect operations of the Northwest Products System, the Los Angeles Logistics Assets and the Los Angeles Terminal Assets for the entire 2014 Period, compared to less than a month of operations of the Northwest Products System and one month of operations of the Los Angeles Terminal Assets in the 2013 Period.

Operating and maintenance expenses increased $48.1 million, or 229%, to $69.0 million in the 2014 Period from $20.9 million in the 2013 Period primarily as a result of an increase of $50.2 million associated with a full period of operations of the 2013 Acquisitions in the 2014 Period compared to the 2013 Period.

General and administrative expenses increased $9.1 million to $12.1 million in the 2014 Period compared to $3.0 million in the 2013 Period due to increased expenses for certain allocated overhead costs associated with the 2013 Acquisitions.

Depreciation and amortization expenses increased $20.5 million to $29.9 million in the 2014 Period compared to $9.4 million in the 2013 Period. The increase is attributable to depreciation expense related to the 2013 Acquisitions. The 2013 Period includes depreciation expense for the Northwest Products System from the acquisition date on June 19, 2013 and the Los Angeles Terminal Assets from the acquisition date on June 1, 2013. The 2014 Period results include six months of depreciation for the assets acquired in 2013.

Loss (gain) on asset disposals and impairments includes a gain of $4.7 million related to the sale of the Boise Terminal during the 2014 Period. We agreed to divest the Boise Terminal pursuant to the regulatory review process associated with the Northwest Products System acquisition.

CAPITAL RESOURCES AND LIQUIDITY

Our primary cash requirements relate to funding capital expenditures, meeting operational needs, paying distributions to our unitholders and paying our debt service costs. We expect our ongoing sources of liquidity to include cash generated from operations, borrowings under our Revolving Credit Facility, issuances of additional debt and equity securities and reimbursement for certain maintenance and expansion capital expenditures. 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 and debt servicing requirements and allow us to fund at least the minimum quarterly cash distributions.

We filed a shelf registration statement with the SEC on May 22, 2012 (the "2012 Shelf"), to provide the ability to raise up to $500.0 million by offering common units through one or more prospectus supplements that would describe, among other things, the specific amounts and prices of the common units offered and the terms of the offering. In October 2012, we issued common units for an aggregate of $177.9 million under the 2012 Shelf. We filed an additional shelf registration statement with the SEC on January 7, 2013, which allows us to raise an unlimited amount of common units through one or more prospectus supplements.

On June 25, 2014, we filed a prospectus supplement to our 2012 shelf registration statement filed with the SEC, authorizing the continuous issuance of up to an aggregate of $200.0 million of common units, in amounts, at prices and on terms to be determined by market conditions and other factors at the time of our offerings (such continuous offering program, or at-the-market program, referred to as our "ATM Program"). During the three months ended June 30, 2014, we issued an aggregate of 5,500 common units under our ATM Program, generating proceeds of approximately $0.4 million, net of offering costs. The net proceeds from these sales will be used for general partnership purposes. We paid fees of $7,903 for the three months ended June 30, 2014, related to the ATM Program. We issued an additional 193,900 common units under this program for net proceeds of $13.6 million (net of offering costs of $0.3 million) that settled in July 2014. We currently have the ability to raise up to an additional $307.8 million (including the remaining amount available under the ATM Program) through the issuance of common units under the 2012 Shelf described above.

Following payment of the cash distribution for the first quarter of 2014 and the attainment of necessary approvals, the requirements for the conversion of all subordinated units were satisfied under the partnership agreement. As a result, effective May 16, 2014, 15,254,890 subordinated units were converted into common units on a one-for-one basis and thereafter participate on terms equal with all other common units in distributions of available cash. The conversion of the subordinated units did not impact the amount of cash distributions paid by the Partnership or the total number of its outstanding units.

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. The table below summarizes the quarterly distributions related to our quarterly financial results:

Quarter Ended	Total Quarterly Distribution Per Unit	Total Quarterly Distribution Per Unit, Annualized	Total Cash Distribution including general partner IDRs (in thousands)	Date of Distribution	Unitholders Record Date
December 31, 2013	$ 0.565	$ 2.26	$ 36,265	February 13, 2014	February 3, 2014
March 31, 2014	0.590	2.36	38,976	May 15, 2014	May 5, 2014
June 30, 2014 (a)	0.615	2.46	42,132	August 14, 2014	August 4, 2014

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(a) This distribution was declared on July 24, 2014 and will be paid on the date of distribution.

Debt Overview

Our total debt at June 30, 2014 was comprised of the following (in thousands):

Debt, including current maturities:	June 30, 2014
Revolving Credit Facility	$ 227,600
5.875% TLLP Senior Notes due 2020 (b)	605,251
6.125% TLLP Senior Notes due 2021	550,000
Capital lease obligations	8,556
Total Debt	$ 1,391,407

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(b) Includes unamortized premium of $5.3 million.

Revolving Credit Facility

As of June 30, 2014, our Revolving Credit Facility provided for total loan availability of $575.0 million, and we are allowed to request that the loan availability be increased up to an aggregate of $650.0 million, subject to receiving increased commitments from the lenders. Our 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. We had $227.6 million of borrowings and $0.3 million in letters of credit outstanding under the Revolving Credit Facility, resulting in a total unused loan availability of $347.1 million as of June 30, 2014. The weighted average interest rate for borrowings under our Revolving Credit Facility was 2.78% as of June 30, 2014. The Revolving Credit Facility is scheduled to mature on December 31, 2017.

The Revolving Credit Facility was subject to the following expenses and fees at June 30, 2014:

Credit Facility	30 day Eurodollar (LIBOR) Rate	Eurodollar Margin	Base Rate	Base Rate Margin	Commitment Fee (unused portion)
TLLP Revolving Credit Facility (c)	0.16%	2.50%	3.25%	1.50%	0.500%

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(c) 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 our Senior Notes due 2020 and 2021 contain covenants that may, among other things, limit or restrict our 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, 2013. We do not believe that these limitations will restrict our ability to pay distributions. Additionally, the Revolving Credit Facility contains covenants that require us 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 June 30, 2014.

Exchange Offer

The Partnership entered into a registration rights agreement (“Registration Rights Agreement”) in connection with the December 2013 private offering of $250.0 million of Senior Notes due 2020 (the “Unregistered Notes”). On July 25, 2014, the Partnership completed an offer to exchange the Unregistered Notes for notes registered under the Securities Act of 1933, as amended (the “Exchange Notes”). The terms of the Exchange Notes are identical in all material respects (including principal amount, interest rate, maturity and redemption rights) to the Unregistered Notes for which they were exchanged, except that the Exchange Notes generally are not subject to transfer restrictions. The exchange offer fulfills all of the requirements of the Registration Rights Agreement for the Unregistered Notes.

Cash Flow Summary

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

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash Flows From (Used In):		
Operating Activities	$ 89,214	$ 53,074
Investing Activities	(54,028)	(340,799)
Financing Activities (d)	(57,933)	344,272
Increase in Cash and Cash Equivalents	$ (22,747)	$ 56,547

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(d) Cash flows from financing activities include an advance distribution to affiliate in connection with the West Coast Logistics Assets Acquisition in the 2014 Period, and amounts distributed to Tesoro for the acquisition of the Los Angles Terminal Assets in the 2013 Period.

Operating Activities. Net cash from operating activities increased $36.1 million to $89.2 million in the 2014 Period compared to $53.1 million for the 2013 Period primarily due to higher revenues and operating income as a result of the commercial agreements executed in connection with the 2013 Acquisitions.

Investing Activities. Net cash used in investing activities for the 2014 Period decreased $286.8 million to $54.0 million compared to $340.8 million in the 2013 Period. Cash used in investing activities in the 2013 Period included $314.8 million paid upon closing the acquisition of the Northwest Products System. The decrease related to this outflow was partially offset by higher capital expenditures in the 2014 Period including spending related to the High Plains Reversal Project and the construction of the Bakken Area Storage Hub. See “Capital Expenditures” below for a discussion of the various maintenance and expansion projects in the 2014 Period, including those reimbursed by our customers. Cash provided by investing activities during the 2014 Period also included proceeds of $9.7 million from the sale of our Boise Terminal.

Financing Activities. Net cash used in financing activities for the 2014 Period was $57.9 million compared to net cash provided by financing activities of $344.3 million for the 2013 Period. The net cash provided by financing activities in the 2013 Period included net proceeds of $391.6 million from the January 2013 Offering and $8.3 million in net proceeds from the offering of general partner units to Tesoro. We paid higher quarterly cash distributions totaling $75.5 million during the 2014 Period compared to quarterly cash distributions totaling $46.9 million paid in the 2013 Period. Net cash provided by financing activities during the 2014 Period also included $227.6 million of net borrowings on our Revolving Credit Facility, $214.0 million of which were used to fund the advance distribution to TLGP in connection with the acquisition of the first portion of the West Coast Logistics Assets that closed on July 1, 2014.

Capital Expenditures

The Partnership’s operations are capital intensive, requiring investments to expand, upgrade or enhance existing operations and to maintain assets, ensuring regulatory compliance. The cost estimates described below are subject to further review, analysis and permitting requirements and include estimates for capitalized interest and labor. Maintenance capital expenditures include expenditures required to ensure the safety, reliability, integrity and regulatory compliance of our assets. Expansion capital expenditures include expenditures to purchase 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 and other services at our storage and terminalling facilities.

Our total 2014 expected capital expenditures include $200.0 million for both maintenance and expansion capital projects, which increased from $160.0 million due to the addition of expected spending related to the construction of the Connolly Gathering System and the Anacortes truck rack, discussed further below. Additionally, capital expenditures related to the construction of the second phase of the Bakken Area Storage Hub have been deferred until 2015. For the remainder of 2014, we estimate that total capital expenditures will be approximately $126.0 million, or $104.3 million net of reimbursements, for both maintenance and expansion capital projects, which includes projects to expand our crude oil gathering capabilities and terminalling capacity. We anticipate that our capital expenditures will be funded primarily with cash generated from operations, reimbursement by customers for certain maintenance and expansion capital expenditures and issuances of additional debt and equity securities, as needed.

The following table is a summary of our capital expenditures for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Expansion	$ 42,917	$ 17,997	$ 67,737	$ 26,337
Maintenance	4,628	4,437	6,292	6,333
Total Capital Expenditures	$ 47,545	$ 22,434	$ 74,029	$ 32,670

The following tables are a summary of our capital expenditures for the three and six months ended June 30, 2013, disaggregated to present capital expenditures for our Predecessors and of TLLP (in thousands):

	Tesoro Logistics LP (Partnership) (a)	Predecessors	Three Months Ended June 30, 2013 Total Tesoro Logistics LP
Expansion	$ 17,997	$ —	$ 17,997
Maintenance	4,246	191	4,437
Total Capital Expenditures	$ 22,243	$ 191	$ 22,434

	Tesoro Logistics LP (Partnership) (a)	Predecessors	Six Months Ended June 30, 2013 Total Tesoro Logistics LP
Expansion	$ 26,337	$ —	$ 26,337
Maintenance	6,142	191	6,333
Total Capital Expenditures	$ 32,479	$ 191	$ 32,670

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

Expansion Capital Expenditures

Expansion capital expenditures in the 2014 Period were $67.7 million, primarily related to the High Plains pipeline reversal project and the completion of the first phase of the Bakken Area Storage Hub. A total of $6.8 million of expansion capital expenditures were reimbursed to us in the 2014 Period. We estimate that our expansion capital expenditures for the remainder of 2014 will be approximately $92.3 million, or $84.1 million net of reimbursements. Major projects include the following:

- High Plains pipeline reversal project which is expected to increase throughput on the High Plains pipeline by over 50 percent. The project commenced in 2013 and has an expected completion in 2014. The High Plains pipeline reversal project has a total expected spend of $35.0 million.
- A new truck rack at the site of the existing Anacortes terminal acquired as part of the West Coast Logistics Assets, which is expected to add an additional 6,000 to 7,000 barrels per day of gasoline and diesel throughput. The project has a total estimated capital spend of $23.0 million and is expected to be complete in 2015. The estimated current year capital spend is between $5.0 million and $10.0 million.
- Projects to expand and optimize the Southern California distribution system with 2014 expected spending of $25.0 million, which has been adjusted to include additional projects associated with the Los Angeles Logistics Assets. The project is expected to increase throughput and expand ancillary services.
- Connolly Gathering System construction with estimated capital spending of $150.0 million, with current year spending expected to be $25.0 million. The Connolly Gathering System will gather crude oil from various points in Dunn County, North Dakota for delivery at the existing Connolly Station and is expected to have a capacity of approximately 60,000 bpd. We expect the first barrels will be delivered into the main line in late 2014 to early 2015.

In addition to the projects noted above, we are working with Tesoro to evaluate the potential development of a pipeline designed to allow the growing crude oil production in the Cook Inlet in Alaska to be transported to Tesoro's Kenai refinery and marine terminal (the "Trans-Foreland Pipeline"). The estimated capital spend related to the Trans-Foreland Pipeline is between $85.0 million and $100.0 million. The proposed project remains subject to final Board approval, project scoping, engineering and regulatory approvals. Estimated current year spending related to this proposed project has not been included in the expected capital expenditure amounts above.

Maintenance Capital Expenditures

Maintenance capital expenditures in the 2014 Period were $6.3 million. A total of $1.5 million of maintenance capital expenditures were reimbursed to us in the 2014 Period. We estimate that our maintenance capital expenditures for the remainder of 2014 will be approximately $33.7 million, or $20.2 million, net of reimbursements.

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 facilities, 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 liquidity, financial position or results of operations. Under the Amended Omnibus Agreement and the Carson Assets Indemnity 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 subsequent acquisitions from Tesoro.

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 at certain of our assets 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 releases of hydrocarbons and other wastes have occurred. A number of our properties have known hydrocarbon or other hazardous material contamination in the soil and groundwater. See below for our discussion of the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement for more information regarding the indemnification of certain environmental matters provided to us by Tesoro and discussion of certain environmental obligations that were retained by Chevron in conjunction with the Northwest Products System acquisition.

The Partnership has been party to various environmental matters arising in the ordinary course of business. The outcome of these matters cannot always be accurately predicted, but the Partnership recognizes liabilities for these matters based on estimates and applicable accounting guidelines and principles. We have accrued liabilities for these expenses and believe these accruals are adequate based on current information and projections that can be reasonably estimated. Our environmental accruals are based on estimates including engineering assessments, and it is possible that our projections will change and that additional costs will be recorded as more information becomes available. Our accruals for these environmental expenditures totaled $23.0 million and $24.4 million at June 30, 2014 and December 31, 2013, respectively. See Note H to our condensed combined consolidated financial statements for additional information regarding changes in environmental liabilities during the six months ended June 30, 2014.

Tioga, North Dakota Crude Oil Pipeline Release

In September 2013, the Partnership responded to the release of approximately 20,000 barrels of crude oil in a rural field northeast of Tioga, North Dakota (the “Crude Oil Pipeline Release”). The environmental liabilities related to the Crude Oil Pipeline Release include amounts estimated for remediation activities that will be conducted during the next few years to restore the site for agricultural use. We accrued an additional $5.6 million during the six months ended June 30, 2014 to reflect improved scope definition and estimates which resulted in an increase in the total estimated cost associated with the project. Probable insurance recoveries related to the Crude Oil Pipeline Release of $17.2 million and $14.0 million were included in other receivables at June 30, 2014 and December 31, 2013, respectively, pursuant to a pollution liability insurance policy, which is subject to a $1.0 million deductible and a $25.0 million loss limit. Through June 30, 2014, we have received insurance proceeds of $2.4 million in reimbursements of costs incurred.

Costs to comply with a safety order related to the Crude Oil Pipeline Release issued by the Pipeline and Hazardous Materials Safety Administration of the U.S. Department of Transportation (“PHMSA”) are not expected to have a material adverse effect on our liquidity, financial position, or results of operations.

Chevron Diesel Pipeline Release

On March 18, 2013, Chevron detected and responded to the release of diesel fuel (the “Diesel Pipeline Release”) that occurred near Willard, Utah on the Northwest Products System. As a result of this release, a Corrective Action Order (the “CAO”) was issued on March 22, 2013 by PHMSA. In addition, on April 11, 2013, the Department of Environmental Quality, Division of Water Quality, of the state of Utah issued a notice of violation and compliance order. In accordance with the sale and purchase agreements related to the Northwest Products System Acquisition, as amended, Chevron retains financial and operational responsibility to remediate the site of the Diesel Pipeline Release through mid-2015, in addition to paying any monetary fines and penalties assessed by any government authority arising from this incident.

The Partnership assumed responsibility for performing additional testing and associated pipeline repairs on the pipeline pursuant to the CAO upon closing the Northwest Products System acquisition. In connection with the Northwest Products System acquisition, our condensed consolidated balance sheet included $2.9 million and $8.0 million in accrued environmental liabilities related to the CAO at June 30, 2014 and December 31, 2013, respectively, and $4.9 million and $4.7 million in accruals unrelated to the Diesel Pipeline Release included in other noncurrent liabilities at June 30, 2014 and December 31, 2013, respectively.

We expect to spend approximately $25.0 million in total through mid-2015 to perform a detailed inspection and maintenance program, including costs to perform repairs as a result of the inspection, which is intended to improve the integrity of the Northwest Products Pipeline. This includes the costs to comply with the CAO and also costs expected for inspections and repairs on other sections of the pipeline. We have spent $19.0 million under this inspection and maintenance program since the acquisition of the Northwest Products System including $10.1 million for the six months ended June 30, 2014. The purchase price of the Northwest Products system was reduced by $45 million to compensate the Partnership for assuming responsibilities under the CAO and to perform additional inspection and maintenance as the Partnership deemed necessary.

Tesoro Indemnification

Under the 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 subsequent acquisitions from Tesoro, excluding the Los Angeles Terminal Assets and the Los Angeles Logistics Assets. Under the Carson Assets Indemnity Agreement, Tesoro retained responsibility for remediation of known environmental liabilities due to the use or operation of the Los Angeles Terminal Assets and the Los Angeles Logistics Assets prior to the acquisition dates, and has indemnified the Partnership for any losses incurred by the Partnership arising out of those remediation obligations. See Note J of our Annual Report on Form 10-K for the year ended December 31, 2013 for additional information regarding the terms and conditions of the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement.

Other than described above, we did not have any material outstanding lawsuits, administrative proceedings or governmental investigations.

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 secondment and logistics 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;
- changes in the expected spending related to the responsibility the Partnership assumed for performing testing and associated pipeline repairs pursuant to the Corrective Action Order in the Northwest Products System acquisition;
- a material decrease in Tesoro’s profitability;
- a material decrease in the crude oil produced in the Bakken Shale/Williston Basin area of North Dakota and Montana;
- 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 of our transactions relating to our acquisitions from Tesoro and third parties including the acquisitions of the Los Angeles Terminal Assets, the Northwest Products System, the Los Angeles Logistics Assets and the West Coast Logistics Assets;
- 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;
- the coverage and ability to recover claims under our insurance policies; 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 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 price risk related to imbalance gains and losses or to diesel fuel or other supply costs.

Interest Rate Risk

Our use of debt directly exposes us to interest rate risk. Variable-rate debt, such as borrowings under our Revolving Credit Facility, exposes us to short-term changes in market rates that impact our interest expense. Fixed rate debt, such as our Senior Notes, exposes us to changes in the fair value of our debt due to changes in market interest rates. Fixed rate debt also exposes us to the risk that we may need to refinance maturing debt with new debt at higher rates, or that we may be obligated to rates higher than the current market. The fair value of our fixed rate debt was estimated using quoted market prices. The carrying value and fair value of our total debt were $1.4 billion and $1.5 billion, respectively, as of June 30, 2014, and were both approximately $1.2 billion as of December 31, 2013. Unless interest rates increase significantly in the future, our exposure to interest rate risk should be minimal. As of June 30, 2014, we had $227.6 million of 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. With all other variables held constant, a 0.25% change in the interest rate associated with these borrowings would result in a $0.6 million change in annual interest expense.

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 may enter into these transactions in the future. 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

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 Securities Exchange Act of 1934, as amended (“the Exchange Act”), is accumulated and appropriately communicated to management. There have been no significant changes in our internal controls over financial reporting (as defined by applicable Securities and Exchange Commission rules) during the quarter ended June 30, 2014 that have materially affected or are reasonably likely to materially affect these controls.

We expect to complete during 2014 a transition from the 1992 framework of the Committee of Sponsoring Organizations of the Treadway Commission to its 2013 framework for assessing our internal control effectiveness over financial reporting.

We carried out an evaluation required by Rule 13a-15(b) of 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 at the end of the reporting period. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

ITEM 5. OTHER INFORMATION

On July 28, 2014, Tesoro Logistics Operations LLC (the “Operating Company”), a wholly-owned subsidiary of TLLP, entered into a construction service agreement (the “Construction Agreement”) with Tesoro Refining & Marketing Company LLC (“TRMC”), effective July 1, 2014. Under the Construction Agreement, the Operating Company will pay TRMC a fixed fee of $23.0 million for the construction of a new refined products distribution truck rack at the site of the Partnership’s Anacortes terminal, which was acquired on July 1, 2014.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Although from time to time we may 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.

On March 12, 2014, the Northwest Clean Air Agency issued a notice of violation jointly to Tesoro Logistics Operations LLC and Tesoro Refining & Marketing Company LLC alleging a violation of air quality regulations at TLLP's Anacortes Crude Rail Offloading facility. The allegation concerns hydrocarbon releases from the wastewater system at the unloading facility during the period of November 2012 through September 2013. While we cannot currently estimate the timing of the resolution of this matter, the outcome will not have a material impact on our financial position, results of operations or liquidity.

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, 2013.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below provides a summary of all purchases by the Partnership of its common units during the three-month period ended June 30, 2014.

Period	Total Number of Units Purchased (a)	Average Price Paid per Unit	Total Number of Units Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Units that May Yet Be Purchased Remaining at Period End Under the Plan or Programs (In Thousands)
April 2014	—	$ —	—	$ —
May 2014	338	$ 68.75	—	$ —
June 2014	—	$ —	—	$ —
Total	338		—	

(a) The entire 338 units were acquired from employees during the second quarter of 2014 to satisfy tax withholding obligations in connection with the vesting of service phantom unit awards issued to them.

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ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description of Exhibit
2.1	Contribution, Conveyance and Assumption Agreement, dated as of June 23, 2014, among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Alaska Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, Tesoro Logistics Operations LLC and Tesoro Logistics Pipelines LLC (incorporated by reference herein from Exhibit 2.1 to the Partnership's Current Report on Form 8-K filed on June 23, 2014).
3.1	Second Amended and Restated Limited Liability Company Agreement of Tesoro Logistics GP, LLC, dated as of July 1, 2014, among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Alaska Company LLC, and Tesoro Logistics GP, LLC (incorporated by reference herein from Exhibit 3.1 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
*10.1	Construction Service Agreement - Anacortes Products Terminal, dated as of July 28, 2014 between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC.
10.2	Terminalling Services Agreement – Nikiski, dated as of July 1, 2014, among Tesoro Alaska Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC (incorporated by reference herein from Exhibit 10.1 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
10.3	Terminalling Services Agreement – Anacortes, dated as of July 1, 2014, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP and Tesoro Logistics Operations LLC (incorporated by reference herein from Exhibit 10.2 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
10.4	Amendment No. 1 to Anacortes Track Use and Throughput Agreement, dated as of July 1, 2014, between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC (incorporated by reference herein from Exhibit 10.3 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
10.5	Terminalling Services Agreement – Martinez, dated as of July 1, 2014, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC (incorporated by reference herein from Exhibit 10.4 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
10.6	Storage Services Agreement - Anacortes, dated as of July 1, 2014, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP and Tesoro Logistics Operations LLC (incorporated by reference herein from Exhibit 10.5 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
10.7	First Amendment to Ground Lease, dated as of July 1, 2014, between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC (incorporated by reference herein from Exhibit 10.6 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
10.8	Ground Lease dated as of July 1, 2014, between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC (incorporated by reference herein from Exhibit 10.7 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
10.9	Martinez License Agreement, dated as of July 1, 2014, between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC (incorporated by reference herein from Exhibit 10.8 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
10.10	Martinez Rights Agreement, dated as of July 1, 2014, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP and Tesoro Logistics Operations LLC (incorporated by reference herein from Exhibit 10.9 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
10.11	Third Amended and Restated Omnibus Agreement, dated as of July 1, 2014, among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, Tesoro Logistics LP and Tesoro Logistics GP, LLC (incorporated by reference herein from Exhibit 10.10 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
10.12	Secondment and Logistics Services Agreement, dated as of July 1, 2014, among Tesoro Refining & Marketing Company LLC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics Operations, LLC, Tesoro Logistics Pipelines LLC, Tesoro High Plains Pipeline Company LLC, Tesoro Logistics Northwest Pipeline LLC and Tesoro Alaska Pipeline Company LLC (incorporated by reference herein from Exhibit 10.11 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).

Exhibit Number	Description of Exhibit
10.13	Termination Agreement, dated as of July 1, 2014, Tesoro Refining & Marketing Company LLC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics Operations, LLC and Tesoro High Plains Pipeline Company LLC (incorporated by reference herein from Exhibit 10.12 to the Partnership's Current Report on Form 8-K filed on July 1, 2014).
*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

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: August 1, 2014	By: /s/ GREGORY J. GOFF Gregory J. Goff Chairman of the Board of Directors and Chief Executive Officer
Date: August 1, 2014	By: /s/ G. SCOTT SPENDLOVE G. Scott Spendlove Director, Vice President and Chief Financial Officer

Exhibit 10.1

CONSTRUCTION SERVICE AGREEMENT
Anacortes Products Terminal

THIS CONSTRUCTION SERVICE AGREEMENT ("**Agreement**") is made and entered into effective as of July 1, 2014 ("**Effective Date**"), by and between Tesoro Logistics, Operations, a Delaware liability company, whose address is 19100 Ridgewood Parkway, San Antonio, TX 78259 (hereinafter "**TLO**"), and Tesoro Refining & Marketing Company LLC, a Delaware company, whose address is 19100 Ridgewood Parkway, San Antonio, TX 78259 (hereinafter "**TRMC**"). TRMC and TLO are each a "**Party**" and collectively are "**Parties**" to this Agreement.

WHEREAS, TLO has requested that TRMC perform certain Work for TLO with respect to construction of a refined products distribution truck rack at a site in Anacortes, Washington that has been leased by TRMC to TLO, including Work on certain adjacent offsite facilities owned and operated by TRMC, all as more particularly described on Exhibit B attached hereto; and

WHEREAS, by entering into this Agreement, TLO and TRMC desire to establish certain general terms and conditions which shall apply to, govern and control, all Work performed by TRMC for TLO within the scope of this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual promises contained herein, the Parties agree as follows:

1.0 Nature of Agreement

1.1 This Agreement establishes the terms applicable to the Work, as may be specified in Exhibit B or another written agreement between the Parties referencing this Agreement.

2.0 Definitions

The capitalized terms and acronyms in this Agreement have the following meanings:

2.1 **"Applicable Laws"** mean laws, regulations, statutes, codes, rules, orders, permits, policies, licenses, certifications, decrees, standards, or interpretations imposed by any governmental authority that apply to the Services or this Agreement, including those within the Area of Operations or the country where the Services are performed.

2.2 **"Area of Operations"** means the area (i) described in Exhibit D or (iii) any other area within TLO's operational control where TRMC performs or is expected to perform the Work.

2.3 **"Claim"** means any and all demands, causes of action, damages (whether compensatory, punitive, statutory or otherwise), losses, penalties, fines, and/or expenses (including reasonable attorneys' fees, expert fees and litigation or arbitration costs) of every kind and character, whether asserted by Tesoro or a third party.

2.4 "**TLO**" means the party listed in the preamble above who has contracted with TRMC for the Work.

2.5 "**TRMC**" means the party listed in the preamble above who, according to the terms and conditions of this Agreement, will provide the Work to TLO.

2.6 "**FCO**" means Field Change Order.

2.7 "**FCR**" means Field Change Request.

2.8 "**Force Majeure**" means an act of God, strike, lockout, or other industrial disturbance, act of public enemy, terrorism, war, blockade, fire, storm or governmental action, governmental restraint, or any other cause, whether of the kind enumerated above or not, which is not reasonably within the control of the Party asserting a Force Majeure.

2.9 “**Goods**” shall mean personal property, materials, supplies and equipment included within the Work.

2.10 “**PO**” means Purchase Order.

2.11 “**Services**” means those services as specified in Exhibit B or other written agreement between the Parties referencing this Agreement.

2.12 “**SO**” means Service Order.

2.13 “**Substance**” means alcohol, drug(s), chemical(s), illegal or prescribed, that may be inhaled, injected, absorbed or taken by mouth that may impair an individual in any way.

2.14 “**Work**” includes the furnishing of Services and delivery by TRMC of all labor, supervision, materials, tools, equipment and supplies which may be necessary to provide the work as indicated on Exhibit B, attached hereto.

3.0 Agreement Price

3.1 TLO shall pay TRMC a lump sum price of $23,000,000.00 for the Work, subject to and in accordance with the pricing terms of Exhibit C, attached hereto.

4.0 Orders and Field Change Requests

4.1 TLO may request changes in the Work to be performed. Prior to the commencement of any additional or revised Work requested by TLO, TRMC shall provide TLO with a FCR to reflect the additional or revised Work to be performed and the revised costs thereof. TLO may approve said FCR, and, if the FCR is approved, shall issue a FCO before such additional or revised Work shall commence. Once so approved by TLO, a FCO shall amend the applicable price indicated in section 3.0 above and Exhibit C. Any changes to any Work requested by TLO that do not affect TRMC’s net costs shall be without additional cost to TLO.

5.0 Term of Agreement

5.1 This Agreement shall become effective on the Effective Date and will continue until July 1, 2014 and, unless terminated sooner in accordance with this Agreement, will continue thereafter on a month-to-month basis, subject to termination by either Party by giving the other Party thirty (30) days’ notice in writing, as set forth in Article 19 of this Agreement, titled “Notices”.

5.2 If TLO decides that it is necessary to continue ongoing Work after notice of termination is given, then termination shall not be effective until the ongoing Work and the transition thereof is completed or made secure to the satisfaction of TLO, unless TLO, in its sole discretion, decides on an earlier effective termination date.

6.0 Inspection, Testing, Acceptance, and Rejection

6.1 TLO may inspect and test the Work and also reject any or all of the same not conforming as to quality, type or quantity as stated in Exhibit B, even if payment has been made by TLO to TRMC. TLO shall be under no obligation or duty to inspect the Work. Unless Exhibit B or an FCR specifically provides otherwise, TLO’s inspection of or failure to inspect any Work shall not limit, waive, release or otherwise affect TRMC’s guaranties and warranties provided herein or relieve TRMC of any other responsibilities hereunder. TLO’s failure to inspect any particular Work shall not be a continuing waiver of its right to inspect any future Work to be performed hereunder.

6.2 TRMC shall furnish to TLO all information and data as may be reasonably required to perform TLO's inspection. TLO reserves the right at any time to cancel or suspend the Work if Tesoro’s inspection reveals that the Work being performed does not conform to applicable safety laws and/or regulations.

6.3 The right to test and reject non-conforming Work includes, but is not limited to: processes, technical information, computer software, raw materials, components, intermediate assemblies, and end products

6.4 TLO shall have the absolute right to reject any Work that is deficient or non-conforming with respect to the specifications contained in Exhibit B or the warranties contained herein, and TLO shall be under no obligation to pay for any such rejected Work. In the event TLO accepts such Work, TLO shall continue to retain any and all of its remedies provided by the terms of this Agreement, including, but not limited to, (i) conditionally accepting such defective or non-conforming Work subject to an equitable price reduction; (ii) correcting or replacing such defective or non-conforming Work and back-charging TRMC for all costs incurred by TLO; (iii) requiring TRMC to promptly repair or replace such defective or non-conforming Work or materials or equipment at TRMC's sole expense; or (iv) terminating this Agreement.

6.5 All materials and equipment delivered or installed and Work performed by TRMC shall be deemed to be accepted when the same have been determined by TLO in its discretion to be in conformance with the specifications contained in Exhibit B and the warranties provided herein. TLO's inspection or acceptance of or payment for any Work shall not constitute a waiver of any warranties, rights or remedies.

6.6 TRMC is under a continuing obligation, subsequent to the performance of any Work, to notify TLO in the event TRMC discovers or becomes aware of any non-conformity in the delivered Work performed. TRMC must provide written notice to Tesoro within twenty-four (24) hours of such discovery.

7.0 <u>Scheduling and Suspension of Services and/or Work</u>

7.1 TRMC shall strictly adhere to the delivery dates and completion schedules specified by TLO in Exhibit B. The obligation of TRMC to meet the delivery dates and schedules is important to this Agreement.

7.2 If TRMC believes it may be unable to comply with any delivery and/or installation date or completion schedule, TRMC shall promptly notify TLO in writing of the probable length of any anticipated delay and the reasons for it.

7.3 Acceptance of late performance of the Work shall not be deemed a waiver of TLO's right to deduct the late performance penalties set forth on Exhibit C, nor will it act as a modification of any of TRMC 's performance obligations hereunder.

7.4 TLO may, by written directive, suspend all or part of any Work to be performed for a period not to exceed ninety (90) days. Within such period, or any extension thereof to which the Parties may agree, TLO shall either (i) cancel such suspension, or (ii) terminate the Work covered by suspension in accordance with this Agreement. In the event that TLO suspends performance of Work, other than by reason of a breach by TRMC of its representations and warranties hereunder, then the periods set forth in Exhibit C that occur after such suspension shall be extended by the period of such suspension.

8.0 <u>Offset and Liens</u>

8.1 TRMC shall keep TLO's property free of all liens and claims of TRMC contractors and other third parties, which may arise as a result of TRMC or its contractor's performance of the Work.

8.2 TRMC, at its own expense, shall secure the prompt discharge of any lien(s) which may arise out of or in connection with TRMC or its contractor's performance of the Work.

8.3 If TRMC fails to discharge any lien or Claim of lien not permitted by this Article, within five (5) business days from receipt of notice by TLO to TRMC, Tesoro may discharge or release the liens or Claim of lien, and TRMC shall pay TLO its costs for the release and reasonable attorneys' fees and other costs associated with securing the release or settlement of lien.

9.0 Warranties and Representations

9.1 TRMC will construct and deliver to TLO an operable truck loading rack at the site described on Exhibit D that is in conformance with the specifications set forth on Exhibit B, and is free of material defects and in compliance with all applicable laws and regulations and capable of blending and loading onto trucks light petroleum products in accordance with applicable laws and regulations and customary industry standards.

9.2 TRMC shall utilize employees and contractors to perform all Work in a good and workmanlike manner with due diligence and without undue delay or interruption. TRMC warrants that it will employ employees and contractors who have adequate equipment, in good working order, free from defects and fit for its intended use of performing the Work, and that TRMC and such contractors will have fully trained and adequately supervised personnel perform the Work who are capable of safely and properly operating the equipment, and that the Work shall be performed as economically to TLO as possible and in full compliance with TLO's safety and environmental rules and policies.

9.3 The representations and warranties contained herein shall extend to the Work performed by TRMC contractors to the same extent as to any such Work performed by TRMC.

9.4 TRMC hereby agrees to assign TLO any and all warranties and guarantees from third party contractors, suppliers and manufacturers and to cooperate in the enforcement of such warranties and guarantees.

9.5 TRMC shall: (i) conduct its operations in such a manner as to cause a minimum of interference with TLO's operations and the operations of other contractors at the jobsite; and (ii) protect all persons and property thereon from damage or injury.

9.6 If any Work performed or materials or equipment installed by TRMC or its contractors shall prove defective in title, material and/or workmanship, within eighteen (18) months from the date of receipt by TLO, or one year of the date of installation, whichever occurs first in time, TLO shall notify TRMC in writing of such defect or non-compliance within sixty (60) days of discovery of such defect or non-compliance, and TRMC shall, at its option, modify, repair or replace said Goods or item, at no cost to TLO. TRMC shall take custody and title of the defective Goods or item upon installation of the replacement Goods or item. Adjustments for materials or equipment not manufactured by TRMC shall be made to the extent of any warranty of the manufacturer or supplier thereof. In the event any Goods are not available for use due to defects in materials, workmanship or engineering furnished by TRMC, the guarantee period shall be extended for a period equal to the time of delay due to non-use.

9.7 TLO shall not be entitled to recover any incidental or consequential damages by reason of any breach of warranty hereunder, and its sole and exclusive remedy against TRMC for defective or non-conforming Work shall be as set forth in Section 6.4; provided however, that if TLO should be unable to provide truck loading services to TRMC by reason of any defective or non-conforming Work that is not in compliance with the warranties and representations under this Agreement, then TRMC shall not have any right to assert any offsets, credits or other excuses that might it might be otherwise entitled to assert avoid payment for fixed commitments under any terminalling agreements between TLO and TRMC to the extent that TLO's inability to perform or delay in performance of terminalling services is caused by defective or non-conforming Work performed by TRMC that is not in accordance with the warranties and representations contained herein.

9.8 TLO shall not be entitled to recover any incidental or consequential damages by reason of any failure by TRMC to meet the schedules for completion of the Work set forth in Exhibit B, and its sole and exclusive remedy against TRMC for delays in performance shall be as set forth in Exhibit C.

9.9 TRMC acknowledges that there are hazards inherent in TLO's operations and that TLO's facilities, equipment and premises may contain patent and latent hazardous conditions and defects. TRMC shall familiarize itself with the condition of TLO's facilities and equipment prior to beginning such Work and TRMC accepts such facilities and equipment "AS IS, WHERE IS" for such Work.

10.0 Release and Indemnity

10.1 **TO THE EXTENT CAUSED BY OR ARISING OUT OF TRMC'S NEGLIGENCE, WILLFUL MISCONDUCT, ACTS OR OMISSIONS, STRICT LIABILITY, OR BREACH OF THIS AGREEMENT IN THE PERFORMANCE OR NONPERFORMANCE OF THE SERVICES OR WORK OR TRMC'S BREACH OF THIS AGREEMENT, TRMC SHALL AND HEREBY DOES RELEASE, DEFEND, AND INDEMNIFY TLO, TESORO LOGISTICS LP AND TESORO LOGISTICS GP, LLC, FROM AND AGAINST ANY AND ALL CLAIMS, INCLUDING THOSE CAUSED BY OR ARISING OUT OF ANY AND ALL OF THE FOLLOWING, WHETHER OR NOT CONTRIBUTED TO BY THE ACT OR OMISSION OF ANOTHER (THIRD) PARTY:**

A. BODILY INJURY, ILLNESS OR DEATH TO ANY PERSONS, INCLUDING EMPLOYEES OF TRMC AND ITS CONTRACTORS;

B. LOSS, DAMAGE AND DESTRUCTION OF PROPERTY;

C. CLAIMED OR ACTUAL INFRINGEMENT OR CONTRIBUTORY INFRINGEMENT OF ANY PATENT, OR INFRINGEMENT OF ANY COPYRIGHT OR TRADEMARK, OR MISAPPROPRIATION OF ANY TRADE SECRET;

D. A BREACH OF ANY OF THE REPRESENTATIONS OR WARRANTIES CONTAINED IN ARTICLE 9 HEREOF; AND

E. ANY CLAIMS ARISING IN CONNECTION WITH A LIEN BECOMING FIXED UPON THE AREA OF OPERATIONS OR OTHERWISE ASSERTED AGAINST ANY PROPERTY OF TLO AS A RESULT OF TRMC FAILING TO PAY (OR TO PROCURE THE PAYMENT OF) ITS DEBTS.

10.2 **TRMC'S RELEASE, DEFENSE AND INDEMNITY OBLIGATIONS SHALL BE CONSTRUED IN ACCORDANCE WITH AND ENFORCEABLE TO THE MAXIMUM EXTENT PERMITTED BY LAW, AND IF ANY PORTION OF THIS ARTICLE 10 SHOULD BE DEEMED TO BE LEGALLY UNENFORCEABLE, THIS ARTICLE 10 SHALL BE DEEMED AMENDED TO PROVIDE FOR TRMC'S OBLIGATIONS HEREUNDER TO BE THE MAXIMUM OBLIGATIONS ALLOWABLE UNDER APPLICABLE LAW, AND THE REMAINING PORTIONS SHALL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY APPLICABLE LAW. IN THOSE CLAIMS FOR WHICH TRMC IS REQUIRED TO INDEMNIFY AND/OR DEFEND CLAIMS AGAINST TLO, TLO SHALL HAVE THE RIGHT, AT ITS OPTION AND EXPENSE, TO PARTICIPATE IN THE DEFENSE OF ANY SUCH CLAIM WITHOUT RELIEVING TRMC OF ANY OBLIGATIONS HEREUNDER.**

11.0 Insurance

11.1 TRMC shall, at its sole cost and expense, obtain and maintain in force at all times during the term of this Agreement, sufficient insurance (i) as may be required by law, and (ii) to protect TRMC and TLO from third party claims arising out of or connected with the performance of the Work hereunder.

11.2 TRMC shall require all of its contractors to provide the insurance coverage (including additional insured, waiver of subrogation, certificates and non-cancellation) as indicated in Exhibit A, attached hereto.

11.3 The existence or non-existence of insurance as required by this Agreement will not limit TRMC's liability for any claims asserted against TLO.

12.0 Responsibility for Loss or Damage to Equipment and Materials

12.1 Unless otherwise agreed by the Parties, TLO shall not safeguard or protect any vehicles, vessels, tools, equipment, machinery, supplies or other personal property belonging to TRMC, its contractors or employees, whether or not on TLO's premises, and the owners of such property shall be solely responsible for the protection of such property.

13.0 Independent Contractor Relationship

13.1 TRMC will be an independent contractor in its performance of all Work hereunder. TRMC shall have exclusive direction and control of its contractors and shall be solely responsible for its acts and omissions and for the acts and omissions of its contractors. TLO is interested only in the results obtained and has only general right of inspection, review and approval of the Work, in order to assure satisfactory completion of the Work and compliance with the terms of this Agreement.

14.0 Safety and Environmental Requirements

14.1 TRMC shall take any and all necessary precautions to prevent the occurrence of any injury (including death) to any person(s), or any damage to any property or the environment, arising out of acts or omissions of TRMC.

14.2 TRMC agrees to comply with any safety and environmental requirements set forth by the TLO environmental, health and safety manager at the location where Work is performed. Approval of any exceptions to safety or environmental requirements shall be handled by the safety manager at the location where Work is performed.

15.0 Security and Background Check Requirements

15.1 TRMC shall have background checks performed on all of its contractors and their employees who will have access to the Area of Operations, unescorted by a TLO or TRMC employee.

16.0 Laws, Rules, and Regulations

16.1 TRMC will ensure that its employees and contractors comply with all federal, state, and local laws, rules, regulations and orders applicable to all Work performed under this Agreement. TRMC shall have its employees and contractors secure and maintain current all required permits, licenses, certificates, and approvals for the Work. TRMC employees and contractors shall specifically comply with all applicable federal, state, and local environmental, employment, safety and zoning laws, rules, and regulations as amended on one or more occasions. Without limiting the foregoing, to the extent required by law, rule or regulation, and as applicable to the Work performed under this Agreement, TRMC shall and shall require its contractors to comply, with the following:

(i) Equal Opportunity: Executive Order 11246, the Equal Opportunity Clause prescribed in 41 CFR 60-1.4(d) (race, color, religion, sex and national origin); 41 CFR 60-1.7 (filing the Employer Information Report annually); 41 CFR 60-1.8 (non-segregated facilities); 41 CFR 60-1.40 (establishment of a written affirmative action plan); 41 CFR 60-741.5 (workers with disabilities); 48 CFR Chapter 1 Subpart 19.7 (Small Business and Small Disadvantaged Business Concerns); Executive Order 12138 (women-owned businesses);

(ii) The Fair Labor Standards Act of 1938, as amended and related regulations;

(iii) The Immigration Reform and Control Act of 1986 and related regulations;

(iv) TRMC and its Contractor's employees, agents, subcontractors, representatives and servants performing operation or maintenance work on Pipelines or Pipeline Facilities (as defined in 49 CFR 192 and 195) under this Agreement, will: 1) comply with the Accountable Pipeline Safety and Partnership Act of 1996 (the "**Pipeline Safety Act**"), 49 CFR Parts 192 or 195, 2) meet the U.S. Department Transportation's Operator qualification requirements and Tesoro's qualification requirements by being qualified by the National Center for Construction Education Research ("**NCCER**"),Operator Qualification Solutions Group ("**OQSG**"), or any other qualification program approved by Tesoro, and 3) create and retain required records under the Pipeline Safety Act and any regulations or rules promulgated in accordance therewith;

(v) Anti-Drug Plan and Drug Testing: 46 CFR Parts 4, 5, and 16 and 49 CFR Parts 40 and 199 (requirements of the U.S. Coast Guard, the U.S. Department of Transportation);

(vi) Occupational Safety: The Occupational Safety and Health Act and all OSHA regulations, including without limitation those regulating the handling and use of asbestos or asbestos-containing material, 40 CFR Part 61 Subparts A and M, 29 CFR 1926 (Construction, Industrial Standards for Asbestos), 29 CFR 1910.1001 (Asbestos), 29 CFR 1910.134 (Respiratory Protection) 29 CFR Subpart K (Medical) and all other applicable state rules and regulations for the abatement of asbestos materials;

(vii) Water Pollution. The Clean Water Act, as amended, The Oil Pollution Act of 1990, the Federal Water Pollution Control Act;

(viii) Hazardous Substances and Wastes: The Resource Conservation and Recovery Act of 1976, as amended by the Used Oil Recycling Act of 1980, the Solid Waste Disposal Act Amendments of 1980, the Hazardous and Solid Waste Amendments of 1984, the Hazardous Materials Transportation Act, as amended, the Toxic Substance Control Act, as amended; the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), as amended by the Superfund Amendments and Re-authorization Act of 1986;

(ix) The Clean Air Act, as amended;

(x) Executive Order 13496 Compliance: TRMC agrees to comply with the provisions of 29 CFR Part 471.

(xi) Where applicable, all Department of Homeland Security provisions including, but not limited to Transportation Worker Identification Credential ("**TWIC**").

(xii) Where applicable, the requirements of 41 CFR 60-300.5(a) which prohibits discrimination against qualified protected veterans, and requires affirmative action by covered prime contractors and subcontractors to employ and advance in employment qualified protected veterans.

16.2 In the event any provision of this Agreement is inconsistent with or contrary to any applicable law, rule, regulation, or order of a court of competent jurisdiction, said provision shall be deemed to be modified to the extent required to comply with said law, rule, regulation, or order, and this Agreement as so modified will remain in full force and effect.

16.3 **TRMC SHALL AND DOES HEREBY RELEASE, DEFEND, INDEMNIFY, AND HOLD TLO HARMLESS FROM ALL CLAIMS, JUDGEMENTS, DAMAGES, LOSSES, LIABILITIES, EXPENSES, AND ANY COSTS RELATED THERETO (INCLUDING WITHOUT LIMITATION COURT COSTS, EXPERT FEES, AND REASONABLE ATTORNEYS' FEES) ARISING IN WHOLE, OR IN PART FROM, OR IN ANY WAY RELATED TO, TRMC OR ITS CONTRACTOR'S FAILURE TO COMPLY WITH FEDERAL, STATE, AND LOCAL LAWS, RULES, REGULATIONS, AND ORDERS APPLICABLE TO ALL WORK PERFORMED UNDER THIS AGREEMENT.**

17.0 Force Majeure

17.1 In the event either Party is rendered unable by Force Majeure to carry out its obligations under this Agreement, other than its obligation to indemnify or make money payments, that Party shall give the other Party prompt written notice of the Force Majeure with full particulars concerning it; thereupon, the obligations of the Party giving the notice, so far as they are affected by the Force Majeure, shall be suspended during, but not longer than, the continuance of the Force Majeure. The affected Party shall use all reasonable dispatch to remedy the Force Majeure situation as quickly as possible; provided, however, the Party shall not be required to settle any strike or other labor dispute contrary to its wishes. In the event that performance of Work is suspended by reason of Force Majeure, then the periods set forth in Exhibit C that occur after such suspension shall be extended by the period of such suspension.

18.0 Subcontracting

18.1 TRMC may hire contractors to perform the Work, but TRMC is solely responsible and shall timely provide for payment to such contractor(s). TRMC shall provide TLO with adequate advance notice of the identity of each contractor to be hired to perform Work, and any other information reasonably required or requested by TLO with respect to such contractor(s). TLO may approve or reject contractor(s), and may reject any contractor with or without cause. TRMC shall not employ or continue to employ any contractor rejected by TLO to perform the Work hereunder. Contractor(s) hired by TRMC shall not be deemed to be servants, agents, employees, representatives of TLO, but shall perform in accordance with the terms hereof; provided, however, TRMC shall remain responsible for acts and omissions of such contractor(s) and the performance and breach of this Agreement by such contractor(s).

19.0 Notices

19.1 Unless otherwise specifically provided for, any and all notices or other communications provided for under this Agreement shall be in writing or by confirmed e-mail address for the Parties listed below. Notices must be given in one or more of the following ways: (i) in person;(ii) by courier;(iii) by United States registered or certified mail with return receipt requested;(iv) by postage prepaid to the attention of the appropriate representative of the Party at the address set forth below;(v) by e-mail; or (vi) at such other physical or e-mail address as may be designated with ten (10) days prior thereto by notice to the other Party. Notice is deemed given when received by the Party to be notified or for e-mail, when receipt of the e-mail is confirmed; provided, however, that notices received after 5:00 PM or on a non-business day shall be deemed given the following business day; and provided further, that if mailed, notices cannot be given after reasonable effort at such address, notices shall be deemed constructively given three (3) days after being mailed.

TLO	**TRMC**
Travis Fisher	Donald J. Manuel
Director, Logistics, Engineering & Integrity	Senior Manager, Technical
19100 Ridgewood Parkway,	10200 West March Point Road
San Antonio, TX 78259	Anacortes, Washington 98221
Telephone: (210) 626-4903	Telephone: (360) 293-1688
E-mail: Travis.C.Fisher@tsocorp.com	E-mail: Don.J.Manuel@tsocorp.com

20.0 <u>Confidentiality</u>

20.1 TLO and TRMC may, in connection with Work contemplated under this Agreement, disclose Confidential Information to each other. Each Party will use reasonable efforts to prevent the disclosure of any of the other Party's Confidential Information to third parties during the term of this Agreement and for a period of three (3) years from termination of this Agreement, provided that the recipient Party's obligation under this paragraph shall not apply to:

(i) Information that is already in the recipient Party's possession with no obligation of confidentiality at the time of disclosure thereof;

(ii) Information that is received from a third party having no obligation of confidentiality to the disclosing Party;

(iii) Information that later becomes publicly known or part of the public domain through no fault of the recipient Party;

(iv) Information that is independently developed by the recipient Party; or

(v) Information that is required by law or regulation to be disclosed.

20.2 TRMC shall return to TLO all such Confidential Information, including all copies thereof, when and as requested by TLO during the term of this Agreement when the Work has been completed.

20.3 The provisions of this Article shall not apply to any information which was in TRMC's possession prior to its disclosure by or on behalf of TLO to TRMC, or to any information which shall become part of the public domain or which shall become available to TRMC legitimately from a source other than TLO, or to any information which TRMC shall become legally compelled to disclose.

20.4 TLO is entitled to specific performance of this Article and to injunctive relief against further violations, as well as any further remedies at law or in equity available to TLO.

20.5 The provisions of this Article survive the termination of this Agreement.

21.0 <u>Governing Law</u>

21.1 The laws of the State of Texas, without giving effect to principles of conflict of laws, shall govern all matters arising under this Agreement, including but not limited to the validity, interpretation and enforcement of this Agreement, the rights and obligations of the Parties hereunder and all tort claims.

22.0 <u>Attorneys' Fees</u>

22.1 The prevailing Party in any dispute hereunder, in addition to actual damages and any other legal or equitable remedies to which it may be entitled, shall be entitled to recover reasonable attorneys' fees and costs from the non-prevailing Party.

23.0 Contract in Entirety

23.1 This Agreement sets forth the full and complete agreement of the Parties as to the Work, but shall alter, amend or change the Ground Lease or any other commercial agreement between the Parties except as specifically provided herein.

24.0 Modifications or Waivers

24.1 No change, modification, or alteration of this Agreement will be valid unless written and signed by the authorized representatives of the Parties hereto, and no course of dealing between the Parties is construed to alter the terms hereof. No waiver of any breach of this Agreement will be deemed to be a waiver of any other or subsequent breach.

25.0 Survival

25.1 Articles 8.0 through 12.0, and 20.0 through 25.0, and all other provisions of this Agreement that by their terms are intended to survive termination or expiration of this Agreement, including any accrued obligations, warranties, representations, and indemnities under this Agreement, shall survive any termination or expiration of this Agreement.

26.0 Construction

26.1 In the event of any ambiguity in any of the terms or conditions of this Agreement such ambiguity shall not be construed for or against any Party hereto on the basis that such Party did or did not author the Agreement. The underlined headings used throughout this Agreement are for administrative convenience only and shall be disregarded for the purposes of construing this Agreement.

26.2

THIS AGREEMENT is executed by duly authorized representatives as of the Effective Date.

Tesoro Logistics Operations LLC	**Tesoro Refining & Marketing Company LLC**
By: /s/ PHILLIP M. ANDERSON	By: /s/ KEITH M. CASEY
Name: Phillip M. Anderson	Name: Keith M. Casey
Title: President	Title: Executive Vice President, Operations

Exhibit “A”

Minimum Insurance Requirements for TRMC Contractors

TRMC contractors will strictly adhere to all insurance requirements as outlined in this Exhibit A. At a minimum, TRMC shall require its contractors to obtain and maintain during the term of this Agreement the following:

1. **Workers’ Compensation and Employer’s Liability**

    a. **Statutory requirements** in the jurisdiction where the operations are conducted. This includes coverage under the U.S. Longshore and Harbor Workers’ Compensation Act as well as the Outer Continental Shelf Lands Act with voluntary compensation for marine operations to include transportation, wages, maintenance and cure, and Jones Act Coverage where required.

    b. **Coverage B Employer’s Liability** with a minimum limit of **$1,000,000.00**.

    c. Endorsement to include a **waiver of subrogation** in favor of TRMC and TLO.

2. **Commercial General Liability**

    a. Minimum combined single limit of **$1,000,000.00 per occurrence for bodily injury or property damage liability.** Deductible or self-retention amount must be shown on certificate of insurance.

    b. **Blanket Contractual liability** specifically covering the indemnities contained in this Agreement.

    c. **Products and Completed Operations** coverage.

    d. **Personal Injury** coverage.

    e. **Premises/operations** coverage.

    f. Explosion, blasting, underground damage and collapse coverage.

    g. Broad form property damage.

    h. TRMC and TLO named as **additional insured**.

    i. Endorsement to include a **waiver of subrogation** in favor of TRMC and TLO.

3. **Commercial Automobile Liability**

    a. Coverage for **all owned and non-owned, hired vehicles**.

    b. Minimum combined single limit of **$1,000,000.00 per occurrence for bodily injury and property damage liability.** Deductible or a self-retention amount must be shown on certificate.

    c. If applicable**,** Motor Carrier Policies of Insurance for Public Liability Endorsement (Motor Carrier Act of 1980) with Minimum Limits of $1,000,000 Bodily Injury and Property Damage per occurrence.

    d. TRMC and TLO named as **additional insured.**

    e. Endorsement to include a **waiver of subrogation** in favor of TRMC and TLO.

4. **Excess (Umbrella) Liability**

    a. **Limits of Liability** not less than **$4,000,000.00** per occurrence.

    b. TRMC and TLO named as **additional insured.**

c. Additional excess limits may be utilized to supplement inadequate limits in the primary policies required in Items 1(b), 2(a) and 3(b) above.

d. Endorsement to include a **waiver of subrogation** in favor of TRMC and TLO.

5. Contractor's Pollution Liability (if applicable to the Work)

a. Limits of Liability not less than **$2 million per occurrence.**

6. Errors and Omissions Liability (if applicable to the Work)

a. Limits of Liability not less than **$5 million per occurrence**.

Exhibit "B"

Scope of Work

Anacortes Light Products Truck Rack

The Anacortes Product Truck Rack shall be comprised of three components as detailed in the TRMC AFE number 132100026, Revision date effective 3/27/2-14 (the AFE), including the TECHNICAL OBJECTIVES - Rev E 03/14/14. The terminal design and layout will comply with that provided in the AFE, together with API Standard 2610 and all applicable permit conditions, with such further revisions as may be mutually agreed upon by the Parties:

1. The truck terminal component shall consist of two covered truck lanes with two loading positions per lane with three loading arms per position, a vapor recovery unit, additization facilities, a driver kiosk, and security features, all located on the same plot space as the existing diesel and propane truck loading facility.

2. The "off sites" component shall consist of tanks, piping and pumps to transfer regular grade gasoline bob, premium grade gasoline bob, and ULSD products from refinery storage to the truck terminal. The system shall deliver regular gasoline and diesel truck loading rates up to 2000 gpm and premium gasoline truck loading rate up to 1000 gpm.

3. The ethanol receiving and storage component shall consist of a rail spur, rail car and truck offloading equipment, an ethanol storage tank, pumps and piping to transfer the ethanol to the truck terminal for blending into the gasoline.

Exhibit "C"

Payment for Work

Price: TLO agrees to pay TRMC an aggregate fixed price of $23 million for the Work, to be paid in accordance with the Progress Payment Schedule detailed below:

Expected Milestones and Progress Payment Schedule:

Completion Milestones		Timing	$MM
Award	5%	Jul 1, 2014	**1**
Day Tank Construction	25%	Nov 1, 2014	**6**
Truck Rack Module Delivery	30%	Jan 1, 2015	**7**
Mechanically Complete	25%	Mar 1, 2015	**6**
Hold Back until Operational In-service Date* of April 30, 2015	15%	Apr 30, 2015	**3**
	100%		**23**

Payments will be made when the milestones are achieved. Dates are the expected target dates for achieving such milestones.

* In the event the terminal is not fully operational by the Operational In-Service Date, late charges will accrue and be deducted from any amounts payable to TRMC in the amount of $200,000 per month (equal to the expected monthly EBITDA).

Exhibit “D”

Area of Operations

AREA T-1 (ANACORTES TRUCK/PROPANE TERMINAL AREA)

BEGINNING AT A POINT BEARING NORTH 02° 53' 32" EAST 2472.20 FEET ALONG THE SECTION LINE COMMON TO SAID SECTIONS 28 AND 29, TOWNSHIP 35 NORTH, RANGE 2 EAST, W.M., AND NORTH 87° 06'44" WEST 1003.59 FEET FROM THE SECTION CORNER COMMON TO SECTIONS 28/29/32/33, TOWNSHIP 35 NORTH, RANGE 2 EAST, W.M., SAID SECTION CORNER BEING MARKED BY A 3 '14 INCH DIAMETER ALUMINUM CAP MARKED DEPT. OF NATURAL RESOURCES, WASHINGTON T35N R2E S28, S29, S32, S33 PLS 31444, 2000, SAID POINT OF BEGINNING ALSO BEING A POINT WESTERLY BOUNDARY OF THAT AREA DESCRIBED IS SAID MEMORANDUM OF GROUND LEASE, TENANT'S OPTION TO PURCHASE; RIGHT OF RIGHT OF FIRST REFUSAL AND OPTION AGREEMENT, RECORDED AS AUDITORS FILE NUMBER 201301080048;
THENCE ALONG SAID WESTERLY BOUNDARY, NORTH 86°53'09" WEST 24.22 FEET TO A POINT;
THENCE NORTH 07°58'01" WEST 8.04 FEET TO A POINT;
THENCE NORTH 42°26'45" WEST 14.46 FEET TO A POINT;
THENCE NORTH 89°52'37" WEST 16.40 FEET TO A POINT;
THENCE LEAVING SAID WESTERLY BOUNDARY, NORTH 00°48'14" EAST 42.04 FEET TO A POINT;
THENCE NORTH 89°11'46" WEST 90.25 FEET TO A POINT;

THENCE SOUTH 60°46'46" WEST 24.78 FEET TO A POINT; B- 2
THENCE NORTH 52°32'10" WEST 33.62 FEET TO A POINT ON THE EASTERLY RIGHT OF WAY (BEING 25.00 FEET FROM WHEN MEASURED AT RIGHT ANGLES TO THE CENTERLINE) OF MARCH'S POINT ROAD;
THENCE ALONG SAID EASTERLY RIGHT OF WAY, NORTH 08°19'59" EAST 123.86 FEET TO A POINT;
THENCE NORTH 07°23'56" EAST 57.60 FEET TO A POINT;
THENCE NORTH 18°27'59" EAST 450.89 FEET TO A POINT;
THENCE LEAVING SAID EASTERLY RIGHT OF WAY, SOUTH 73°44'35" EAST 5.81 FEET TO A POINT TO A POINT OF NON-TANGENT CURVATURE;
THENCE ALONG THE ARC OF A 141.00 FOOT RADIUS CURVE TO THE RIGHT, THROUGH A CENTRAL ANGLE OF 75°29'35", (THE CHORD BEING NORTH 55°13'56" EAST 172.63 FEET) HAVING AN ARC LENGTH OF 185.78 FEET TO A POINT OF TANGENCY;
THENCE SOUTH 87°01 '16" EAST 147.43 FEET TO A POINT;
THENCE SOUTH41°53'19" EAST 51.31 FEET TO A POINT;
THENCE SOUTH 86°27'44" EAST 264.85 FEET TO A POINT;
THENCE SOUTH 26°35'07" WEST 16.34 FEET ON SAID WESTERLY BOUNDARY, SAID POINT ALSO BEING A POINT OF CURVATURE;
THENCE ALONG SAID WESTERLY BOUNDARY, ALONG THE ARC OF A 1170.00 FOOT RADIUS CURVE TO THE RIGHT, THROUGH A CENTRAL ANGLE OF 06°52'19", (THE CHORD BEING SOUTH 30°01'17" WEST 140.24 FEET) HAVING AN ARC LENGTH OF 140.33 FEET TO A POINT OF TANGENCY;
THENCE SOUTH 33°27'26" WEST 221.44 FEET TO A POINT;
THENCE SOUTH 64°59'14" WEST 12.30 FEET TO A POINT;
THENCE SOUTH 03°43'39" WEST 18.74 FEET TO A POINT;
THENCE SOUTH 47°33'57" WEST 8.19 FEET TO A POINT;
THENCE NORTH 89°12'10" WEST 7.74 FEET TO A POINT;
THENCE SOUTH 16°34'12" WEST3.31 FEETTOAPOINTOFNON-TANGENT CURVATURE;
THENCE ALONG THE ARC OF A 95.00 FOOT RADIUS CURVE TO THE RIGHT, THROUGH A CENTRAL ANGLE OF 21°55'06", (THE CHORD BEING SOUTH 27°31'45" WEST 36.12 FEET) HAVING AN ARC LENGTH OF 36.34 FEET TO A POINT OF TANGENCY;
THENCE SOUTH 38°29'18" WEST 148.86 FEET TO A POINT;
THENCE SOUTH 71°03'58" WEST 22.10 FEET TO A POINT;
THENCE SOUTH 20°08'39" WEST 38.30 FEET TO A POINT;
THENCE NORTH 63°04'10" WEST 18.24 FEET TO A POINT;
THENCE SOUTH 55°20'50" WEST 22.71 FEET TO A POINT;
THENCE SOUTH 48°19'07" WEST 199.32 FEET TO A POINT OF CURVATURE;
THENCE ALONG THE ARC OF A 55.00 FOOT RADIUS CURVE TO THE LEFT, THROUGH A CENTRAL ANGLE OF 30°17'53", (THE CHORD BEING SOUTH 33°07'20" WEST 28.75 FEET) HAVING AN ARC LENGTH OF 29.08 FEET TO A POINT OF NON-TANGENCY;
THENCE SOUTH 17°58'23" WEST 7.74 FEET TO THE POINT OF BEGINNING;
THIS DESCRIPTION CONTAINS 7.445 ACRES, MORE OR LESS.

AREA T -2 (ANACORTES TRUCK/PROPANE TERMINAL AREA)

BEGINNING AT A POINT BEARING NORTH 02° 53' 32" EAST 2661.76 FEET ALONG THE SECTION LINE COMMON TO SAID SECTIONS 28 AND 29, TOWNSHIP 35 NORTH, RANGE 2 EAST, W.M., AND NORTH 82° 24'54" WEST 417.18 FEET FROM THE SECTION CORNER COMMON TO SECTIONS 28/29/32/33, TOWNSHIP 35 NORTH, RANGE 2 EAST, W.M., SAID SECTION CORNER BEING MARKED BY A 3 Vt INCH DIAMETER ALUMINUM CAP MARKED DEPT. OF NATURAL RESOURCES, WASHINGTON T35N R2E S28, S29, S32, S33 PLS 31444, 2000;
THENCE SOUTH 43°15'51" WEST 46.69 FEET TO A POINT;
THENCE SOUTH 69°34'39" WEST 93.08 FEET TO A POINT;
THENCE NORTH 84°45'44" WEST 120.27 FEET TO A POINT;
THENCE NORTH 67°26'45" WEST 80.26 FEET TO A POINT ON THE EASTERLY BOUNDARY OF THAT AREA DESCRIBED IS SAID MEMORANDUM OF GROUND LEASE, TENANT'S OPTION TO PURCHASE; RIGHT OF RIGHT OF FIRST REFUSAL AND OPTION AGREEMENT, RECORDED AS AUDITORS FILE NUMBER201301080048;
THENCE ALONG SAID EASTERLY BOUNDARY, NORTH 41°36'44" EAST 93.48 FEET TO A POINT;
THENCE NORTH 32°03'51" EAST 91.66 FEET TO A POINT;
THENCE NORTH 28°39'47" EAST 73.64 FEET TO A POINT;
THENCE NORTH 30°59'34" EAST 236.70 FEET TO A POINT; B- 4
THENCE NORTH 25°27'42" EAST 694.97 FEET TO A POINT;
THENCE LEAVING SAID EASTERLY BOUNDARY, SOUTH 87°01 '06" EAST 129.04 FEET TO A POINT;
THENCE SOUTH 24°55'59" WEST 309.47 FEET TO A POINT;
THENCE SOUTH 23°06'04" WEST 270.16 FEET TO A POINT;
THENCE SOUTH 22°57'59" WEST 178.12 FEET TO A POINT;
THENCE SOUTH 18°46'41" WEST 79.22 FEET TO A POINT;
THENCE SOUTH 11°51 '11" WEST 248.29 FEET THE POINT OF BEGINNING;
THIS DESCRIPTION CONTAINS 4.194 ACRES, MORE OR LESS.

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: August 1, 2014

/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: August 1, 2014

/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 June 30, 2014 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)
August 1, 2014

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 June 30, 2014 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)
August 1, 2014

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.