

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, 2016
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

(State or other jurisdiction of
incorporation or organization)



27-4151603

(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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

There were 101,081,387 common units and 2,062,890 general partner units of the registrant outstanding at July 28, 2016.

TABLE OF CONTENTS

TESORO LOGISTICS LP

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

PART I. FINANCIAL INFORMATION

Page

[Item 1. Financial Statements \(Unaudited\)](#)

[Condensed Statements of Combined Consolidated Operations - Three and Six Months Ended June 30, 2016 and 2015](#) [3](#)

[Condensed Consolidated Balance Sheets - June 30, 2016 and December 31, 2015](#) [4](#)

[Condensed Statements of Combined Consolidated Cash Flows - Six Months Ended June 30, 2016 and 2015](#) [5](#)

[Notes to Condensed Combined Consolidated Financial Statements](#) [6](#)

[Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations](#) [17](#)

[Item 3. Quantitative and Qualitative Disclosures About Market Risk](#) [32](#)

[Item 4. Controls and Procedures](#) [33](#)

PART II. OTHER INFORMATION

[Item 1. Legal Proceedings](#) [34](#)

[Item 1A. Risk Factors](#) [34](#)

[Item 2. Unregistered Sales of Equity Securities and Use of Proceeds](#) [34](#)

[Item 5. Other Information](#) [35](#)

[Item 6. Exhibits](#) [35](#)

[SIGNATURES](#) [37](#)

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,	
	2016	2015	2016	2015
(In millions, except per unit amounts)				
Revenues				
Affiliate	\$ 168	\$ 154	\$ 337	\$ 302
Third-party	125	121	256	236
Total Revenues	293	275	593	538
Costs and Expenses				
Operating and maintenance expenses	108	110	220	208
Imbalance settlement gains and reimbursements	(6)	(11)	(13)	(19)
General and administrative expenses	22	28	46	53
Depreciation and amortization expenses	44	44	88	88
Net loss on asset disposals and impairments	—	—	1	—
Total Costs and Expenses	168	171	342	330
Operating Income	125	104	251	208
Interest and financing costs, net	(45)	(38)	(89)	(75)
Equity in earnings of unconsolidated affiliates	3	1	7	4
Other income, net	—	—	6	—
Net Earnings	\$ 83	\$ 67	\$ 175	\$ 137
Loss attributable to Predecessor	\$ —	\$ 5	\$ —	\$ 9
Net earnings attributable to noncontrolling interest	—	(6)	—	(16)
Net Earnings Attributable to Partners	83	66	175	130
General partner's interest in net earnings, including incentive distribution rights	(36)	(17)	(68)	(31)
Limited Partners' Interest in Net Earnings	\$ 47	\$ 49	\$ 107	\$ 99
Net Earnings per Limited Partner Unit:				
Common - basic	\$ 0.48	\$ 0.60	\$ 1.12	\$ 1.23
Common - diluted	\$ 0.48	\$ 0.60	\$ 1.12	\$ 1.23
Weighted Average Limited Partner Units Outstanding:				
Common units - basic	95.2	80.7	94.4	80.5
Common units - diluted	95.2	80.8	94.4	80.6
Cash Distributions Paid Per Unit	\$ 0.8100	\$ 0.6950	\$ 1.5900	\$ 1.3625

See accompanying notes to condensed combined consolidated financial statements.

TESORO LOGISTICS LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
	(In millions, except unit amounts)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 682	\$ 16
Receivables, net		
Trade	115	139
Affiliate	91	85
Prepayments and other	23	12
Total Current Assets	911	252
Net Property, Plant and Equipment	3,086	3,450
Acquired Intangibles, net	962	976
Goodwill	117	130
Investment in Unconsolidated Affiliates	345	58
Other Noncurrent Assets	29	26
Total Assets	\$ 5,450	\$ 4,892
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable		
Trade	\$ 57	\$ 83
Affiliate	40	48
Accrued interest and financing costs	37	31
Other current liabilities	42	59
Total Current Liabilities	176	221
Debt, Net of Unamortized Issuance Costs	3,218	2,844
Other Noncurrent Liabilities	46	49
Total Liabilities	3,440	3,114
Commitments and Contingencies (Note 6)		
Equity		
Common unitholders; 100,691,105 units issued and outstanding (93,478,326 in 2015)	2,006	1,707
General partner; 1,900,515 units issued and outstanding (1,900,515 in 2015)	4	(13)
Noncontrolling interest	—	84
Total Equity	2,010	1,778
Total Liabilities and Equity	\$ 5,450	\$ 4,892

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,	
	2016	2015
	(In millions)	
Cash Flows From (Used In) Operating Activities:		
Net earnings	\$ 175	\$ 137
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation and amortization expenses	88	88
Other non-cash operating activities	20	9
Changes in current assets and current liabilities	(32)	(27)
Changes in noncurrent assets and noncurrent liabilities	1	6
Net cash from operating activities	252	213
Cash Flows Used In Investing Activities:		
Capital expenditures	(93)	(163)
Other investing	(4)	(6)
Net cash used in investing activities	(97)	(169)
Cash Flows From (Used In) Financing Activities:		
Borrowings under revolving credit agreements	600	262
Repayments under revolving credit agreement	(666)	(223)
Proceeds from debt offering	701	—
Repayment of term loan facility	(250)	—
Proceeds from issuance of units, net of issuance costs	334	45
Quarterly distributions to unitholders	(149)	(110)
Quarterly distributions to general partner	(57)	(30)
Distributions to noncontrolling interest	—	(18)
Financing costs	(17)	—
Sponsor contributions of equity to the Predecessor	—	12
Capital contributions by affiliate	15	12
Net cash from (used in) financing activities	511	(50)
Increase (Decrease) in Cash and Cash Equivalents	666	(6)
Cash and Cash Equivalents, Beginning of Period	16	19
Cash and Cash Equivalents, End of Period	\$ 682	\$ 13

See accompanying notes to condensed combined consolidated financial statements.

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

ORGANIZATION

Tesoro Logistics LP ("TLLP" or the "Partnership") is a fee-based, growth-oriented Delaware limited partnership formed in December 2010 by Tesoro Corporation and its wholly-owned subsidiary, Tesoro Logistics GP, LLC ("TLGP"), our general partner, to own, operate, develop and acquire logistics assets. Unless the context otherwise requires, references in this report to "we," "us," "our," or "ours" 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 TLLP, its subsidiaries and its general partner.

PRINCIPLES OF COMBINATION AND CONSOLIDATION AND BASIS OF PRESENTATION

Acquired assets from Tesoro, and those assets, liabilities and results of operations are collectively referred to as the "Predecessor." The accompanying condensed combined consolidated financial statements and related notes present the 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.

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, 2015.

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.

CONDENSED CONSOLIDATING FINANCIAL INFORMATION. Our 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.

Subsequent to the deconsolidation of Rendezvous Gas Services, L.L.C. ("RGS") as of January 1, 2016, we are not required to provide condensed consolidating financial information pursuant to Rule 3-10 of Regulation S-X as we no longer have a consolidated non-guarantor subsidiary. For further discussion on the deconsolidation of RGS, see discussion below and in Note 4.

FAIR VALUE INFORMATION

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 (less than one percent of our trade payables and approximately one percent of our trade receivables have been outstanding for greater than 90 days); and
- the expected future insignificance of bad debt expense, which includes an evaluation of counterparty credit risk.

The computation of the percentage of the short-term duration of our trade receivables excludes amounts that are greater than 90 days related to legal disputes, primarily XTO Energy Inc.'s ("XTO") legal dispute with QEP Field Services, LLP ("QEPFS"). See further discussion regarding the XTO litigation in Note 6.

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 secured revolving credit facility (the "Revolving Credit Facility") and our secured dropdown credit facility ("Dropdown Credit Facility"), which include a variable interest rate, approximate fair value. The carrying value and fair value of our debt were approximately \$3.3 billion and \$3.4 billion as of June 30, 2016, respectively. The carrying value and fair value of our debt were approximately \$2.9 billion and \$2.8 billion at December 31, 2015, respectively. These carrying and fair values of our debt do not include any unamortized issuance costs associated with our total debt.

NEW ACCOUNTING STANDARDS AND DISCLOSURES

REVENUE RECOGNITION. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which provides accounting guidance for all revenue arising from contracts to provide goods or services to customers. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017, given the FASB's recent deferral of ASU 2014-09's effective date. Entities may choose to early adopt ASU 2014-09 as of the original effective date. The standard allows for either full retrospective adoption or modified retrospective adoption. We are currently evaluating the impact of the standard on our financial statements and related disclosures. Based on our initial evaluation, we believe that the standard could impact the amount and timing of revenues we recognize as certain of our revenue arrangements require us to provide multiple services and may include variable consideration.

CONSOLIDATION. In February 2015, the FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis" ("ASU 2015-02"). This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015, and requires either a retrospective or a modified retrospective approach to adoption. We adopted this guidance using the modified retrospective approach as of January 1, 2016 and performed the required reassessments outlined by the guidance. For further information on the results of the reassessments, refer to Note 4, Investments - Equity Method and Joint Ventures.

BUSINESS COMBINATIONS. In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments" ("ASU 2015-16"). The standard requires an acquirer to recognize the cumulative impact of adjustments to provisional purchase price amounts that are identified during the measurement period in the reporting period, in which the adjustment amounts are determined. The standard also requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for interim and annual periods beginning after December 15, 2015 and must be applied prospectively to adjustments that occur after the effective date. We adopted this guidance as of January 1, 2016, with no impact to our financial statements.

LEASES. In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"), which improves transparency and comparability among organizations by requiring lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, and requires a modified retrospective approach to adoption. Early adoption is permitted. At this time, we are evaluating the potential impact of this standard on our financial statements.

SHARE-BASED COMPENSATION. In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), which simplifies several aspects of the accounting for employee share-based payment transactions including accounting for income taxes, cash flow presentation of tax impacts, forfeitures, and liability versus equity

accounting due to statutory tax withholding requirements. ASU 2016-09 is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. As of January 1, 2016, we early adopted ASU 2016-09 and with respect to the guidance on forfeitures, we have elected to continue to estimate forfeitures on the date of grant to account for the estimated number of awards for which the requisite service period will not be rendered. The adoption of ASU 2016-09 had no impact on our financial statements.

PRINCIPAL VS AGENT CONSIDERATIONS March 2016, the FASB issued ASU 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”), which amends the principal versus agent guidance in ASU 2014-09. The amendments clarify how an entity should apply the control principle to certain types of arrangements, such as service transactions, by explaining what a principal controls before the specified good or service is transferred to the customer. The effective date and transition requirements for the amendments in ASU 2016-08 are the same as the effective date and transition requirements of ASU 2014-09. At this time, we are evaluating the potential impact of this standard on our financial statements.

NOTE 2 - RELATED-PARTY TRANSACTIONS

ACQUISITION

ALASKA LOGISTICS ASSETS PURCHASE. Effective July 1, 2016, the Partnership entered into an agreement to purchase certain terminalling and storage assets owned by Tesoro for total consideration of \$444 million to be completed in two phases. On July 1, 2016, the Partnership completed the acquisition of the first phase consisting of tankage with a shell capacity of approximately 3.5 million barrels, related equipment and ancillary facilities used for the operations at Tesoro’s Kenai Refinery. The second phase purchase consists of refined product terminals in Anchorage and Fairbanks (together, the “Alaska Logistics Assets”). Consideration paid for the first phase was \$266 million, which comprised of approximately \$239 million in cash, financed with borrowings under the Dropdown Credit Facility, and the issuance of equity to Tesoro with a fair value of \$27 million. Consideration for the second phase is expected to be \$178 million, comprised of approximately \$160 million in cash, expected to be financed with borrowings under the Dropdown Credit Facility, and the issuance of equity securities with a fair value of approximately \$18 million.

AFFILIATE AGREEMENTS

The Partnership has various long-term, fee-based commercial agreements with Tesoro, under which we provide pipeline transportation, trucking, terminal distribution and storage services to Tesoro, and Tesoro typically commits to fixed fees or to provide us with minimum monthly throughput volumes of crude oil and refined products. For the natural gas liquids that we handle under keep-whole agreements, the Partnership has a fee-based processing agreement with Tesoro which minimizes the impact of commodity price movements during the annual period subsequent to renegotiation of terms and pricing each year.

In addition, we have agreements for the provision of various general and administrative services by Tesoro. Under our partnership agreement, we are required to reimburse TLGP and its affiliates for all costs and expenses that they incur on our behalf for managing and controlling our business and operations. Except to the extent specified under our amended omnibus agreement (the “Amended Omnibus Agreement”) or our secondment agreement (the “Secondment Agreement”), TLGP determines the amount of these expenses. The Amended Omnibus Agreement and the Secondment Agreement were amended and restated in connection with the Alaska Logistics Assets purchase. Under the terms of the Amended Omnibus Agreement as of June 30, 2016, we are required to pay Tesoro an annual corporate services fee of \$9 million for the provision of various centralized corporate services, including executive management, legal, accounting, treasury, human resources, health, safety and environmental, information technology, certain insurance coverage, administration and other corporate services. Under the terms of our Secondment Agreement as of June 30, 2016, we pay Tesoro a net annual service fee of \$2 million for services performed by field-level employees at the majority of our facilities. Additionally, pursuant to the Amended Omnibus Agreement and Secondment Agreement, we reimburse Tesoro for any direct costs actually incurred by Tesoro in providing other operational services with respect to certain of our other assets and operations.

NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SUMMARY OF AFFILIATE TRANSACTIONS

SUMMARY OF REVENUE AND EXPENSE TRANSACTIONS WITH TESORO (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues (a)	\$ 168	\$ 154	\$ 337	\$ 302
Operating and maintenance expenses	34	29	71	58
Imbalance settlement gains and reimbursements from Tesoro (b)	5	11	12	19
General and administrative expenses	16	18	33	35

- (a) Tesoro accounted for 57% of our total revenues for both the three and six months ended June 30, 2016 and 56% of our total revenues for both the three and six months ended June 30, 2015.
- (b) Includes imbalance settlement gains of \$2 million for both the three months ended June 30, 2016 and 2015, and \$3 million and \$4 million for the six months ended June 30, 2016 and 2015, respectively. Also includes reimbursements from Tesoro pursuant predominantly to the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement of \$3 million and \$9 million for the three months ended June 30, 2016 and 2015, respectively, and \$9 million and \$15 million for the six months ended June 30, 2016 and 2015, respectively.

PREDECESSOR TRANSACTIONS Related-party transactions of our Predecessor were settled through equity. Our Predecessor did not record revenue for transactions with Tesoro in the Terminalling and Transportation segment.

DISTRIBUTIONS In accordance with our partnership agreement, the unitholders of our common and general partner interests are entitled to receive quarterly distributions of available cash. During the six months ended June 30, 2016, we paid quarterly cash distributions of \$109 million to Tesoro and TLGP, including incentive distribution rights ("IDRs"). On July 20, 2016, we declared a quarterly cash distribution of \$0.842 per unit, which will be paid on August 12, 2016. The distribution will include payments of \$66 million to Tesoro and TLGP, including IDRs.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT BY SEGMENT, AT COST (in millions)

	June 30, 2016	December 31, 2015
Gathering (a)	\$ 1,368	\$ 1,700
Processing	571	565
Terminalling and Transportation	1,593	1,582
Gross Property, Plant and Equipment	3,532	3,847
Accumulated depreciation (a)	(446)	(397)
Net Property, Plant and Equipment	\$ 3,086	\$ 3,450

- (a) We recognized a decrease of \$363 million to net property, plant and equipment as of January 1, 2016 as a result of the deconsolidation of RGS. See Note 4 for further discussion of the deconsolidation of RGS.

NOTE 4 - INVESTMENTS - EQUITY METHOD AND JOINT VENTURES

For each of the following investments, we have the ability to exercise significant influence over each of these investments through our participation in the management committees, which make all significant decisions. However, since we have equal or proportionate influence over each committee as a joint interest partner and all significant decisions require consent of the other investor(s) without regard to our economic interest, we have determined that these entities should not be consolidated and apply the equity method of accounting with respect to our investments in each entity.

- **RGS.** We have a 78% interest in RGS, which owns and operates the infrastructure that transports gas from certain fields to several re-delivery points in southwestern Wyoming, including natural gas processing facilities that are owned by us or a third party. Prior to 2016, we consolidated RGS, however, upon our reassessment performed in conjunction with the adoption of ASU 2015-02 as of January 1, 2016, we determined RGS represents a variable interest entity to us for which we are not the primary beneficiary. Under the limited liability company agreement, we do not have voting rights commensurate with our economic interest due to veto rights available to our partner in RGS. Certain business decisions, including, but not limited to, decisions with respect to significant expenditures or contractual commitments, annual budgets, material financings, dispositions of assets or amending the members' gas servicing agreements, require unanimous approval of the members. For amounts previously consolidated in our financial statements as of and for the year ended December 31, 2015, refer to the amounts shown in the Non-Guarantor column in the condensed consolidating financial information presented in Note 16 in our annual report on Form 10-K referenced herein.
- **THREE RIVERS GATHERING, LLC ("TRG").** We own a 50% interest in TRG which operates natural gas gathering assets within the southeastern Uinta Basin and is primarily supported by long-term, fee-based gas gathering agreements with minimum volume commitments.
- **UINTAH BASIN FIELD SERVICES, L.L.C. ("UBFS").** We own a 38% interest in UBFS which owns and operates the natural gas gathering infrastructure located in the southeastern Uinta Basin and is supported by long-term, fee-based gas gathering agreements that contain firm throughput commitments, which generate fees whether or not the capacity is used, and is operated by us.

EQUITY METHOD INVESTMENTS (in millions)

	RGS	TRG	UBFS	Total
Balance at December 31, 2015	\$ —	\$ 42	\$ 16	\$ 58
Effect of deconsolidation (a)	295	—	—	295
Equity in earnings	4	2	1	7
Distributions received	(10)	(4)	(1)	(15)
Balance at June 30, 2016	\$ 289	\$ 40	\$ 16	\$ 345

NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

- (a) We recognized an increase of \$295 million to equity method investments as of January 1, 2016 as a result of the deconsolidation of RGS in addition to a cumulative effect reduction to opening equity of \$2 million related to the difference in earnings under the equity method of accounting in prior periods. The carrying amount of our investment in RGS exceeded the underlying equity in net assets by \$138 million at June 30, 2016.

NOTE 5 - DEBT

DEBT BALANCE, NET OF UNAMORTIZED ISSUANCE COSTS (in millions)

	June 30, 2016	December 31, 2015
Total debt	\$ 3,266	\$ 2,883
Unamortized issuance costs (a)	(48)	(39)
Debt, Net of Unamortized Issuance Costs	\$ 3,218	\$ 2,844

- (a) Includes unamortized premiums of \$4 million associated with our senior notes at both June 30, 2016 and December 31, 2015.

REVOLVING CREDIT FACILITY AND DROPDOWN CREDIT FACILITY

We amended our existing secured Revolving Credit Facility on January 29, 2016, decreasing the aggregate available facility limit from \$900 million to \$600 million and improving terms related to pricing and financial covenants. As a result of this amendment, an immaterial amount of unamortized debt issuance costs were expensed. In addition, we syndicated a \$1.0 billion secured Dropdown Credit Facility on January 29, 2016. The primary use of proceeds under this facility will be to fund asset acquisitions. The terms, covenants and restrictions under this facility are substantially the same as with our amended secured Revolving Credit Facility. The total aggregate available facility limits for the secured Revolving Credit Facility and secured Dropdown Credit Facility totaled \$1.6 billion at June 30, 2016. We are allowed to request the loan availability for both the secured Revolving Credit Facility and the secured Dropdown Credit Facility be increased up to an aggregate of \$2.1 billion, subject to receiving increased commitments from the lenders.

As of June 30, 2016, our secured Revolving Credit Facility provided for total loan availability of \$600 million. Borrowings are available under the secured Revolving Credit Facility up to the total loan availability of the facility. Our secured Revolving Credit Facility is non-recourse to Tesoro, except for TLGP, and is guaranteed by all of our consolidated subsidiaries, and secured by substantially all of our assets. We had no borrowings outstanding under the secured Revolving Credit Facility, resulting in the full loan availability of the borrowing capacity as of June 30, 2016.

As of June 30, 2016, our secured Dropdown Credit Facility provided for total loan availability of \$1.0 billion. We had \$239 million borrowings outstanding under the secured Dropdown Credit Facility, resulting in unused loan availability of \$761 million or 76% the borrowing capacity as of June 30, 2016. The weighted average interest rate for borrowings under our secured Dropdown Credit Facility was 4.51% at June 30, 2016.

The secured Revolving Credit Facility and the secured Dropdown Credit Facility ratably share collateral comprised primarily of our property, plant, and equipment and both facilities mature on January 29, 2021. In addition, upon an upgrade of our corporate family rating to investment grade, certain covenants and restrictions under each facility will automatically be eliminated or improved.

SENIOR NOTES ISSUANCE

On May 9, 2016, we completed a registered offering of \$250 million aggregate principal amount of 6.125% Senior Notes due 2021 ("2021 Notes") and \$450 million aggregate principal amount of 6.375% Senior Notes due 2024 ("2024 Notes"). We used the proceeds of the offering of the 2021 notes to repay amounts outstanding under our Dropdown Credit Facility and the proceeds of the offering of the 2024 notes to repay amounts outstanding under our Revolving Credit Facility and for general partnership purposes.

The 2021 Notes were issued under the same indenture governing the existing \$550 million of the 6.125% Senior Notes due 2021 issued in August 2013 and have the same terms as those senior notes. The 2021 Notes have no sinking fund requirements. We may redeem some or all of the 2021 Notes, prior to October 15, 2016, at a make-whole price plus accrued and unpaid interest, if any. On or after October 15, 2016, the 2021 Notes may be redeemed at premiums equal to 4.594% through October 15, 2017; 3.063% from October 15, 2017 through October 15, 2018; 1.531% from October 15, 2018 through October 15, 2019; and at par thereafter, plus accrued and unpaid interest. We will have the right to redeem up to 35% of the aggregate principal amount

at 106.125% of face value with proceeds from certain equity issuances through October 15, 2016. The 2021 Notes are unsecured and guaranteed by all of our subsidiaries, except Tesoro Logistics Finance Corp., the co-issuer, and are non-recourse to Tesoro, except for TLGP, and contain customary terms, events of default and covenants for an issuance of non-investment grade securities.

The 2024 Notes have no sinking fund requirements. We may redeem some or all of the 2024 Notes, prior to May 1, 2019, at a make-whole price plus accrued and unpaid interest, if any. On or after May 1, 2019, the 2024 Notes may be redeemed at premiums equal to 4.781% through May 1, 2020; 3.188% from May 1, 2020 through May 1, 2021; 1.594% from May 1, 2021 through May 1, 2022; and at par thereafter, plus accrued and unpaid interest. We will have the right to redeem up to 35% of the aggregate principal amount at 106.375% face value with proceeds from certain equity issuances through May 1, 2019. The 2024 Notes are unsecured and guaranteed by all of our subsidiaries, except Tesoro Logistics Finance Corp., the co-issuer, and are non-recourse to Tesoro, except for TLGP, and contain customary terms, events of default and covenants for an issuance of non-investment grade securities.

DEBT REPAYMENTS

On February 3, 2016, we paid the full amount of the Unsecured Term Loan Facility, including accrued interest, with proceeds drawn from the secured Dropdown Credit Facility. All commitments under the Unsecured Term Loan Facility were terminated effective with the repayment and an immaterial amount of unamortized debt issuance costs were expensed.

SENIOR NOTES EXCHANGE

On February 26, 2016, the Partnership commenced an offer to exchange (the "Exchange") its existing unregistered 5.50% Senior Notes due 2019 ("2019 Notes") and 6.25% Senior Notes due 2022 ("2022 Notes") (together, "Unregistered Notes") for an equal principal amount of 5.50% Senior Notes due 2019 and 6.25% Senior Notes due 2022 (the "Exchange Notes"), respectively, that were registered under the Securities Act of 1933, as amended. On April 14, 2016, the Exchange was completed for all of the 2019 Notes and substantially all of the 2022 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 fulfills all of the requirements of the registration rights agreements for the Unregistered Notes.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

TESORO INDEMNIFICATION

Under the Amended Omnibus Agreement, Tesoro indemnifies us for certain matters, including known environmental, title and tax matters associated with the ownership of our assets at or before the closing of the TLLP initial public offering ("Initial Offering") and subsequent acquisitions from Tesoro, excluding certain Los Angeles assets acquired from Tesoro in 2013. Under the Carson Assets Indemnity Agreement, Tesoro retained responsibility for remediation of known environmental liabilities due to the use or operation of certain Los Angeles assets prior to the acquisition dates, and has indemnified the Partnership for any losses incurred by the Partnership arising out of those remediation obligations. Environmental matters discovered subsequent to the Initial Offering and subsequent acquisitions are also indemnified to the extent they are identified prior to five years from the acquisition date. The indemnification under the Initial Offering for unknown environmental matters expired on April 26, 2016. See Note 3 of our Annual Report on Form 10-K for the year ended December 31, 2015, for additional information regarding the terms and conditions of the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement.

CONTINGENCIES

In the ordinary course of business, we may become party to lawsuits, administrative proceedings and governmental investigations, including environmental, regulatory and other matters. The outcome of contingencies cannot always be predicted accurately, but we will accrue liabilities for these matters if the amount is probable and can be reasonably estimated. Contingencies arising after the closing of the Initial Offering from conditions existing before the Initial Offering, and the subsequent acquisitions from Tesoro that have been identified after the closing of each transaction, will be recorded in accordance with the indemnification terms set forth in the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement, as noted above. Any contingencies arising from events after the Initial Offering, and the subsequent acquisitions from Tesoro, will be our responsibility. Other than described in this Note 6, we do not have any other material outstanding lawsuits, administrative proceedings or governmental investigations.

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 liabilities are estimates using internal and third-party assessments and available information to date. It is possible that these estimates will change as more information becomes available. Our liabilities for these environmental expenditures totaled \$24 million and \$33 million at June 30, 2016 and December 31, 2015, respectively.

TIOGA, NORTH DAKOTA CRUDE OIL PIPELINE RELEASE. In September 2013, the Partnership responded to the release 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 to restore the site for agricultural use. We have liabilities totaling \$19 million and \$27 million at June 30, 2016 and December 31, 2015, respectively. This incident was covered by our pollution legal liability insurance policy, subject to a \$1 million deductible and a \$25 million loss limit. Pursuant to this policy, we have received all insurance recoveries related to the Crude Oil Pipeline Release as of December 31, 2015. The estimated remediation costs of \$66 million exceeded our policy loss limit by \$41 million.

LEGAL

QUESTAR GAS COMPANY V. QEP FIELD SERVICES COMPANY. Prior to the acquisition of all of the limited liability company interests of QEPFS, QEPFS’ former affiliate, Questar Gas Company (“QGC”) and its affiliate Wexpro, filed a complaint on May 1, 2012, asserting claims for breach of contract, breach of implied covenant of good faith and fair dealing, and an accounting and declaratory judgment related to a 1993 gathering agreement (the “1993 Agreement”) executed when the parties were affiliates. TLLP agreed to indemnify QEP Field Services Company for this claim under the acquisition agreement for QEPFS. Under the 1993 Agreement, certain of TLLP’s systems provide gathering services to QGC charging an annual gathering rate, which is based on the cost of service calculation. QGC disputed the annual calculation of the gathering rate, which has been calculated in the same manner since 1998, without objection by QGC. As a result of the rulings through the date of our acquisition of QEPFS, TLLP assumed a \$21 million liability for estimated damages. On March 22, 2016, the parties in this dispute entered into a settlement and release agreement resolving all remaining issues and associated counter claims in exchange for TLLP’s payment of \$15 million. We recognized a gain of \$6 million in other income, net on our condensed statement of consolidated operations for the six months ended June 30, 2016 as a result of the settlement.

XTO ENERGY INC. V. QEP FIELD SERVICES COMPANY. XTO filed a complaint on January 30, 2014, asserting claims for breach of contract, breach of implied covenant of good faith and fair dealing, unjust enrichment and an accounting and declaratory judgment related to a 2010 gas processing agreement (the “XTO Agreement”). TLLP processes XTO’s natural gas on a firm basis under the XTO Agreement. The XTO Agreement requires TLLP to transport, fractionate and market XTO’s natural gas liquids derived from XTO’s processed gas. XTO is seeking monetary damages related to TLLP’s allocation of charges related to XTO’s share of natural gas liquid transportation, fractionation and marketing costs associated with shortfalls in contractual firm processing volumes. On March 29, 2016, the parties entered into a settlement and release agreement related to payments withheld by XTO unrelated to the allocation of charges they are challenging. Under the settlement and release agreement, XTO agreed to pay all historical undisputed charges by April 15, 2016 less the \$22 million of allocated charges they are challenging, and to thereafter tender all similar undisputed charges timely. On April 15, 2016, XTO remitted a \$21 million settlement payment related to all undisputed amounts. While we cannot currently estimate the final amount or timing of the resolution of this matter, we believe the outcome will not have a material impact on our liquidity, financial position or results of operations.

NOTE 7 - EQUITY AND NET EARNINGS PER UNIT

We had 68,245,990 common public units outstanding as of June 30, 2016. Additionally, Tesoro owned 32,445,115 of our common units and 1,900,515 of our general partner units (the 1.9% general partner interest) as of June 30, 2016, which together constitutes a 33% ownership interest.

UNIT ISSUANCE. We closed a registered public offering of 6,325,000 common units representing limited partner interests, including the over-allotment option exercised by the underwriter for the purchase of an additional 825,000 common units, at a public offering price of \$47.13 per unit on June 10, 2016. The net proceeds of \$293 million are expected to be used for general partnership purposes, which may include future acquisitions, capital expenditures and additions to working capital.

ATM PROGRAM. On August 24, 2015, we filed a prospectus supplement to our shelf registration statement filed with the SEC on August 6, 2015, authorizing the continuous issuance of up to an aggregate of \$750 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 and six months ended June 30, 2016, we issued an aggregate of 732,949 and 792,647 common units, respectively, under our ATM Program, generating proceeds of approximately \$36 million and \$38 million, respectively, before issuance costs. The net proceeds from sales under the ATM Program will be used for general partnership purposes, which may include debt repayment, future acquisitions, capital expenditures and additions to working capital.

NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CHANGE IN THE CARRYING AMOUNT OF OUR EQUITY (in millions)

	Partnership			Total
	Common	General Partner	Noncontrolling Interest	
Balance at December 31, 2015	\$ 1,707	\$ (13)	\$ 84	\$ 1,778
Equity offering under ATM Program, net of issuance costs	41	—	—	41
Proceeds from issuance of units, net of issuance costs	293	—	—	293
Effect of deconsolidation of RGS (a)	(2)	—	(84)	(86)
Distributions (b)	(149)	(57)	—	(206)
Net earnings	107	68	—	175
Contributions (c)	12	1	—	13
Other	(3)	5	—	2
Balance at June 30, 2016	\$ 2,006	\$ 4	\$ —	\$ 2,010

- (a) As the result of the reassessment performed, we deconsolidated RGS causing the derecognition of noncontrolling interest and an opening equity impact totaling \$86 million. The cumulative effect to opening equity of \$2 million related to the difference in earnings under the equity method of accounting in prior periods.
- (b) Represents cash distributions declared and paid during the six months ended June 30, 2016 relating to the fourth quarter of 2015 and the first quarter of 2016.
- (c) Includes Tesoro and TLGP contributions to the Partnership primarily related to reimbursements for capital spending pursuant predominantly to the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement.

NET EARNINGS PER UNIT We use the two-class method when calculating the net earnings per unit applicable to limited partners, because we have more than one participating security. At June 30, 2016, our participating securities consist of common units, general partner units and IDRs. Net earnings earned by the Partnership are allocated between the common and general partners in accordance with our partnership agreement. We base our calculation of net earnings per unit on the weighted average number of common limited partner units outstanding during the period.

Diluted net earnings per unit include the effects of potentially dilutive units on our common units, which consist of unvested service and performance phantom units. Distributions less than or greater than earnings are allocated in accordance with our partnership agreement.

NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NET EARNINGS PER UNIT (in millions, except per unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net earnings	\$ 83	\$ 67	\$ 175	\$ 137
Net earnings attributable to noncontrolling interest	—	(6)	—	(16)
Net earnings, excluding noncontrolling interest	83	61	175	121
General partner's distributions	(2)	(2)	(4)	(3)
General partner's IDRs (a)	(36)	(15)	(66)	(28)
Limited partners' distributions on common units	(85)	(64)	(161)	(120)
Distributions greater than earnings	\$ (40)	\$ (20)	\$ (56)	\$ (30)
General partner's earnings:				
Distributions	\$ 2	\$ 2	\$ 4	\$ 3
General partner's IDRs (a)	36	15	66	28
Allocation of distributions greater than earnings (b)	(1)	(5)	(1)	(9)
Total general partner's earnings	\$ 37	\$ 12	\$ 69	\$ 22
Limited partners' earnings on common units:				
Distributions	\$ 85	\$ 64	\$ 161	\$ 120
Allocation of distributions greater than earnings	(39)	(15)	(55)	(21)
Total limited partners' earnings on common units	\$ 46	\$ 49	\$ 106	\$ 99
Weighted average limited partner units outstanding				
Common units - basic	95.2	80.7	94.4	80.5
Common units - diluted	95.2	80.8	94.4	80.6
Net earnings per limited partner unit:				
Common - basic	\$ 0.48	\$ 0.60	\$ 1.12	\$ 1.23
Common - diluted	\$ 0.48	\$ 0.60	\$ 1.12	\$ 1.23

(a) IDRs entitle the general partner to receive increasing percentages, up to 50%, of quarterly distributions in excess of \$0.3881 per unit per quarter. The amount above reflects earnings distributed to our general partner net of \$2 million and \$5 million of IDRs for the three and six months ended June 30, 2015, respectively, waived by TLGP. See Note 12 of our Annual Report on Form 10-K for the year ended December 31, 2015, for further discussion related to IDRs.

(b) We have revised the historical allocation of general partner earnings to include the Predecessor losses of \$5 million and \$9 million for the three and six months ended June 30, 2015, respectively.

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 limited partner unitholders and general partner will receive. The table below summarizes the quarterly distributions related to our quarterly financial results:

QUARTERLY DISTRIBUTIONS

Quarter Ended	Quarterly Distribution Per Unit	Total Cash Distribution including general partner IDRs (in millions)	Date of Distribution	Unitholders Record Date
December 31, 2015	\$ 0.780	\$ 98	February 12, 2016	February 2, 2016
March 31, 2016	0.810	108	May 13, 2016	May 2, 2016
June 30, 2016 (a)	0.842	123	August 12, 2016	August 2, 2016

(a) This distribution was declared on July 20, 2016 and will be paid on the date of distribution.

NOTE 8 - OPERATING SEGMENTS

Our revenues are derived from three operating segments: Gathering, Processing and Terminalling and Transportation. Our Gathering segment consists of crude oil and natural gas gathering systems in the Bakken Shale/Williston Basin area of North Dakota and Montana and the Green River Basin, Uinta Basin and Vermillion Basin in the states of Utah, Colorado and Wyoming. Our Processing segment consists of four gas processing complexes and one fractionation facility. Our Terminalling and Transportation segment consists of crude oil and refined products terminals and marine terminals, storage facilities for crude oil, refined products and petroleum coke handling, rail-car unloading facilities and pipelines, which transport products and crude oil.

Our revenues are generated from third-party contracts and from commercial agreements we have entered into with Tesoro, under which customers pay us fees for gathering crude oil and natural gas, processing natural gas and distributing, transporting and storing crude oil, refined products, natural gas and natural gas liquids. The commercial agreements with Tesoro are described in greater detail in Note 3 to our Annual Report on Form 10-K for the year ended December 31, 2015. We do not have any foreign operations.

Our operating segments are strategic business units that offer different services in various geographical locations. We evaluate the performance of each segment based on its respective operating income. Certain general and administrative expenses 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 and other assets that are not associated with a specific operating segment.

NOTES TO CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEGMENT INFORMATION (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Gathering:				
Affiliate	\$ 18	\$ 27	\$ 40	\$ 53
Third-party	64	62	133	113
Total Gathering	82	89	173	166
Processing:				
Affiliate	25	25	51	45
Third-party	43	42	88	89
Total Processing	68	67	139	134
Terminalling and Transportation:				
Affiliate	125	102	246	204
Third-party	18	17	35	34
Total Terminalling and Transportation	143	119	281	238
Total Segment Revenues	\$ 293	\$ 275	\$ 593	\$ 538
Segment Operating Income				
Gathering	\$ 36	\$ 45	\$ 76	\$ 79
Processing	27	24	56	48
Terminalling and Transportation	75	50	144	108
Total Segment Operating Income	138	119	276	235
Unallocated general and administrative expenses	(13)	(15)	(25)	(27)
Interest and financing costs, net	(45)	(38)	(89)	(75)
Equity in earnings of unconsolidated affiliates	3	1	7	4
Other income, net	—	—	6	—
Net Earnings	\$ 83	\$ 67	\$ 175	\$ 137
Capital Expenditures				
Gathering	\$ 21	\$ 54	\$ 46	\$ 105
Processing	8	4	13	5
Terminalling and Transportation	13	19	24	34
Total Capital Expenditures	\$ 42	\$ 77	\$ 83	\$ 144

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" refer collectively to Tesoro Corporation and any of its subsidiaries, other than TLLP, its subsidiaries and its general partner. Unless the context otherwise requires, references in this report to "Predecessor" refer collectively to the acquired assets from Tesoro, and those assets, liabilities and results of operations.

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" section 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, 2015.

BUSINESS STRATEGY AND OVERVIEW

We are a leading full-service logistics company operating primarily in the western and mid-continent regions of the United States. We own and operate a network of crude oil, refined products and natural gas pipelines. We also own and operate crude oil and refined products truck terminals, marine terminals and dedicated storage facilities. In addition, we own and operate natural gas processing and fractionation complexes. We are a fee-based, growth oriented Delaware limited partnership formed by Tesoro Corporation and are headquartered in San Antonio, Texas. Our assets are categorized into a Gathering segment, a Processing segment and a Terminalling and Transportation segment. For the both three and six months ended June 30, 2016, approximately 57% of our total revenues were derived from Tesoro under various long-term, fee-based commercial agreements, many of which include minimum volume commitments.

We generate revenues by charging fees for gathering crude oil and natural gas, for terminalling, transporting and storing crude oil and refined products and for processing natural gas. We are generally not exposed to commodity price risk with respect to any of the crude oil, natural gas, natural gas liquids ("NGLs") or refined products that we handle, with the exception of a nominal amount of condensate. For the NGLs that we handle under keep-whole agreements, the Partnership has a fee-based processing agreement with Tesoro, which minimizes the impact of commodity price movements during the annual period subsequent to renegotiation of terms and pricing each year. We do not engage in the trading of crude oil, natural gas, NGLs or refined products; therefore, we have minimal direct exposure to risks associated with commodity price fluctuations. However, through their effects on our customers' operations, these risks indirectly influence our activities and results of operations over the long term.

STRATEGY AND GOALS

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 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 increase our distributions by 17% over the last year.

Relative to these goals, in 2016, we intend to continue to implement this strategy and have completed or announced plans to:

- expand our assets on our crude oil gathering and transportation system (the "High Plains System"), located in the Bakken Shale/Williston Basin area of North Dakota and Montana (the "Bakken Region") in support of 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:
 - further expanding crude oil storage and transportation capacity and capabilities of our High Plains Pipeline;
 - expanding our gathering footprint in the Bakken Region, including crude oil, natural gas and water, to enhance and improve overall basin logistics efficiencies;
 - adding other origin and destination points on the High Plains System to increase volumes; and
 - pursuing strategic assets in our footprint including potential acquisitions from Tesoro.
- expand and optimize our natural gas gathering and processing assets located in the Green River Basin, Uinta Basin and Vermillion Basin in the states of Utah, Colorado and Wyoming (the "Rockies Region") including:
 - increase compression on our systems in the Green River and Vermillion basins to enhance natural gas volumes recovered from existing wells and support potential new drilling activity; and
 - expand our gathering footprint and increase compression capabilities in the Uinta basin to increase volumes on our gathering systems and through our processing assets.
- grow our terminalling and transportation business across our Western U.S. footprint through:
 - increasing our terminalling volumes by expanding capacity and growing our third-party services at certain of our terminals;
 - optimize Tesoro volumes and grow third-party throughput at our terminalling and transportation assets; and
 - pursuing strategic assets in our footprint including completing the acquisition of Tesoro's recently acquired terminalling assets from Flint Hills Resources in Alaska.

ACQUISITION

ALASKA LOGISTICS ASSETS PURCHASE. Effective July 1, 2016, the Partnership entered into an agreement to purchase certain terminalling and storage assets owned by Tesoro for total consideration of \$444 million to be completed in two phases. On July 1, 2016, the Partnership completed the acquisition of the first phase consisting of tankage with a shell capacity of approximately 3.5 million barrels, related equipment and ancillary facilities used for the operations at Tesoro's Kenai Refinery. The second phase purchase consists of refined product terminals in Anchorage and Fairbanks with combined storage capacity of over 600 thousand barrels, expected throughput of approximately 10 thousand barrels per day ("Mbbpd") and rail loading of 7 Mbbpd. Consideration paid for the first phase was \$266 million, which comprised of approximately \$239 million in cash, financed with borrowings under the secured dropdown credit facility (the "Dropdown Credit Facility"), and the issuance of equity to Tesoro with a fair value of \$27 million. Consideration for the second phase is expected to be \$178 million, comprised of approximately \$160 million in cash, expected to be financed with borrowings under the Dropdown Credit Facility, and the issuance of equity securities with a fair value of approximately \$18 million.

CURRENT MARKET CONDITIONS

During the second quarter, the spot prices of the commodities that we handle have increased, including crude oil, natural gas, natural gas liquids and refined products. Thus, the second quarter continued the price recovery trend that was realized in the first quarter after over a year and a half of declines. This is the result of fundamentals of oil and gas supply shifting from oversupply toward more balanced supply as well as supply disruptions combined with stronger demand for these commodities. Despite the strengthening of prices, commodity prices remain relatively depressed compared to most periods, and this continues to create challenges for crude oil and natural gas producers who have modified their drilling and production plans. The U.S. oil and gas drilling rig count continued to decline in the second quarter though at quarter's end, rig count was beginning to increase. In the crude oil and natural gas production basins where we operate, drilling for new wells is potentially not economic for producers to continue at sustained low commodity prices. However, improved drilling techniques and better well management have increased production per well. Also many producers have a back-log of uncompleted wells which are available for completion. Accordingly, these factors may further impact production volumes in conjunction with rig count trends. Lower retail prices and modest improved domestic economic conditions over the second quarter have continued to support increased demand for refined products from our downstream refining and marketing customers. We continue to see a limited impact to our business from the lifting of the crude export ban and expect minimal impact on our business in the short term. We continue to monitor the impact of these changes in market prices and fundamentals on our business in the western United States. Currently, we

believe our diversified portfolios of businesses as well as our customers' minimum volume commitments are sufficient to continue to meet our goals and objectives outlined above. However, if challenging market conditions for producers persist for a sustained period of time, our customers' financial condition could deteriorate causing non-payment, their potential bankruptcy and project deferrals.

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 and the consolidated financial 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. 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 future performance.

NON-GAAP MEASURES

As a supplement to our financial information presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), our management uses certain "non-GAAP" measures to analyze our results of operations, assess internal performance against budgeted and forecasted amounts and evaluate future impacts to our financial performance as a result of capital investments, acquisitions, divestitures and other strategic projects.

During the second quarter of 2016, management revised its internal and external use of non-GAAP measures to eliminate any adjustments to U.S. GAAP net earnings and earnings before interest, income taxes, and depreciation and amortization expense ("EBITDA") for items previously considered "special items" and loss attributable to our Predecessor. We believe our revised presentation of net earnings and EBITDA and descriptions of significant activities impacting U.S. GAAP net earnings are sufficient to convey our financial performance to the users of our financial statements.

Additionally, we revised our definition of Distributable Cash Flow to include the reconciliation of this non-GAAP measure to be from U.S. GAAP net cash from operating activities rather net earnings. We believe this method of reconciliation is more appropriate based on our determination that Distributable Cash Flow provides a measure by which users of our financial statements can assess our ability to generate cash and thus additional liquidity.

Following these changes, our non-GAAP measures include the following:

- Financial non-GAAP measure of EBITDA, as defined above; and
- Liquidity non-GAAP measures:
 - Distributable Cash Flow is derived from net cash flow from operating activities plus or minus changes in working capital, amounts spent on maintenance capital net of reimbursements and other adjustments not expected to settle in cash; and
 - Pro Forma Distributable Cash Flow is Distributable Cash Flow plus or minus adjustments for the acquisition of noncontrolling interest in connection with the merger of QEP Midstream Partners, LP ("QEPMLP") into TLLP completed in July 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

We present the performance and liquidity measures defined above because investors, analysts, lenders and ratings agencies may use these measures to help analyze our results of operations and liquidity in conjunction with our U.S. GAAP results, including but not limited to the following:

- 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.

In addition, these measures are used by management to assess internal performance. We believe these measures, when supplemental to information presented under U.S. GAAP, may provide meaningful information to the users of our financial statements. Each of the performance and liquidity measures should not be used in isolation from their comparable U.S. GAAP measure and thus should not be considered as alternatives to any U.S. GAAP measure. Non-GAAP measures have important limitations as analytical tools, because they exclude some, but not all, items that affect net earnings, operating income and net cash from operating activities.

OPERATING METRICS

Management utilizes the following operating metrics to evaluate performance and compare profitability to other companies in the industry: average revenue per barrel, average revenue per Million British thermal units ("MMBtu"), and average keep-whole fee per barrel. There are a variety of ways to calculate average revenue per barrel, average revenue per MMBtu, and average keep-whole fee per barrel; other companies may calculate these in different ways. We calculate average revenue per barrel as revenue divided by total throughput (barrels). We calculate average revenue per MMBtu as revenue divided by total throughput (MMBtu). We calculate average keep-whole fee per barrel as revenue divided by total throughput (barrels).

The following table and discussion is a summary of our results of operations for the three and six months ended June 30, 2016 and 2015, including a reconciliation of EBITDA to net earnings and Distributable Cash Flow to cash flow from operating activities (in millions, except per unit amounts). Our financial results may not be comparable as our Predecessor did not record revenues with Tesoro. Our Predecessor recorded 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, 2015.

CONSOLIDATED RESULTS
SUMMARY (In millions, except per unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Gathering	\$ 82	\$ 89	\$ 173	\$ 166
Processing	68	67	139	134
Terminalling and Transportation (a)	143	119	281	238
Total Revenues	293	275	593	538
Costs and Expenses				
Operating and maintenance expenses (b)	102	99	207	189
General and administrative expenses	22	28	46	53
Depreciation and amortization expenses	44	44	88	88
Net loss on asset disposals and impairments	—	—	1	—
Total Costs and Expenses	168	171	342	330
Operating Income	125	104	251	208
Interest and financing costs, net	(45)	(38)	(89)	(75)
Equity in earnings of unconsolidated affiliates	3	1	7	4
Other income, net	—	—	6	—
Net Earnings	\$ 83	\$ 67	\$ 175	\$ 137
Loss attributable to Predecessor	\$ —	\$ 5	\$ —	\$ 9
Net earnings attributable to noncontrolling interest	—	(6)	—	(16)
Net Earnings Attributable to Partners	83	66	175	130
General partner's interest in net earnings, including incentive distribution rights	(36)	(17)	(68)	(31)
Limited Partners' Interest in Net Earnings	\$ 47	\$ 49	\$ 107	\$ 99
Net Earnings per Limited Partner Unit:				
Common - basic	\$ 0.48	\$ 0.60	\$ 1.12	\$ 1.23
Common - diluted	\$ 0.48	\$ 0.60	\$ 1.12	\$ 1.23
Weighted Average Limited Partner Units Outstanding:				
Common units - basic	95.2	80.7	94.4	80.5
Common units - diluted	95.2	80.8	94.4	80.6

- (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.
- (b) Operating and maintenance expenses include net imbalance settlement gains of \$2 million for both the three months ended June 30, 2016 and 2015, and \$3 million and \$4 million for the six months ended June 30, 2016 and 2015, respectively. Also includes reimbursements primarily related to pressure testing and repairs and maintenance costs pursuant to the Amended Omnibus Agreement of \$3 million and \$9 million for the three months ended June 30, 2016 and 2015, respectively, and \$9 million and \$15 million for the six months ended June 30, 2016 and 2015, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Reconciliation of Net Earnings to EBITDA:				
Net earnings	\$ 83	\$ 67	\$ 175	\$ 137
Depreciation and amortization expenses	44	44	88	88
Interest and financing costs, net of capitalized interest	45	38	89	75
EBITDA	\$ 172	\$ 149	\$ 352	\$ 300

Reconciliation of Net Cash from Operating Activities to Distributable Cash Flow and Pro Forma Distributable Cash Flow:

Net cash from operating activities (a)	\$ 91	\$ 65	\$ 252	\$ 213
Changes in assets and liabilities	42	53	31	21
Predecessor impact	—	5	—	11
Maintenance capital expenditures (b)	(14)	(15)	(24)	(25)
Reimbursement for maintenance capital expenditures (b)	10	2	14	3
Net earnings attributable to noncontrolling interest (c)	—	(6)	—	(16)
Other adjustments for noncontrolling interest (c)	—	(12)	—	(20)
Adjustments for unconsolidated affiliates (d)	(3)	(3)	(3)	(1)
Other (e)	—	—	(2)	15
Distributable Cash Flow	126	89	268	201
Pro forma adjustment for acquisition of noncontrolling interest (f)	—	19	—	36
Pro Forma Distributable Cash Flow	\$ 126	\$ 108	\$ 268	\$ 237

- (a) During the second quarter of 2016, we revised our reconciliation of distributable cash flow and pro forma distributable cash flow by reconciling the liquidity measure from net cash from operating activities. There were no impacts to previously reported amounts as a result of this methodology change.
- (b) We exclude maintenance capital expenditures including tank restoration costs and expenditures required to ensure the safety, reliability, integrity and regulatory compliance of our assets with an offset for any reimbursements received for such expenditures.
- (c) Prior to 2016 for noncontrolling interests associated with QEPM and Rendezvous Gas Services, L.L.C. ("RGS"), we excluded earnings along with other adjustments to reflect gross cash available for distribution net of noncontrolling interest impacts.
- (d) We adjust net cash from operating activities to reflect cash distributions received from unconsolidated affiliates attributed to the period reported for the purposes of calculating distributable cash flow.
- (e) Other includes items that had a non-cash impact on our operations and should not be considered in distributable cash flow. Non-cash items for the six months ended June 30, 2016 and 2015 include primarily the exclusion of the non-cash gain of \$6 million recognized relating the settlement of the Questar Gas Company litigation as discussed in Note 6 to our condensed combined consolidated financial statements and the inclusion of \$13 million for acquired deficiency revenue billings to customers in 2015.
- (f) Reflects the adjustment to include the noncontrolling interest in QEPM as controlling interest based on the pro forma assumption that the merger of QEPM with TLLP occurred on January 1, 2015.

THREE MONTHS ENDED JUNE 30, 2016 VERSUS THREE MONTHS ENDED JUNE 30, 2015

OVERVIEW. Our net earnings for the three months ended June 30, 2016 ("2016 Quarter") increased \$16 million to \$83 million from \$67 million for the three months ended June 30, 2015 ("2015 Quarter").

REVENUES. The increase in revenue of \$18 million, or 7%, to \$293 million was driven primarily by the crude oil and refined product storage and pipeline assets in Los Angeles, California (the "LA Storage and Handling Assets") purchased from Tesoro in November 2015 and by higher crude oil gathering throughput on the Tesoro High Plains Pipeline partially offset by declines in natural gas production leading to reduced volumes on our gathering system.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses decreased \$6 million to \$22 million in the 2016 Quarter compared to the 2015 Quarter primarily due to higher costs in 2015 due to integration efforts in connection with the QEPFS acquisition.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTEREST AND FINANCING COSTS, NET. Net interest and financing costs increased \$7 million, primarily related to the issuance of new senior notes during the 2016 Quarter and borrowings on the Dropdown Credit Facility related to the acquisition of the LA Storage and Handling Assets.

SIX MONTHS ENDED JUNE 30, 2016 VERSUS SIX MONTHS ENDED JUNE 30, 2015

OVERVIEW. Our net earnings for the six months ended June 30, 2016 ("2016 Period") increased \$38 million to \$175 million from \$137 million for the six months ended June 30, 2015 ("2015 Period").

REVENUES. Revenues for the 2016 Period increased \$55 million to \$593 million from \$538 million for the 2015 Period primarily driven by the LA Storage and Handling Assets purchased from Tesoro in November 2015. In addition, revenue increases were driven by higher crude oil gathering throughput on the Tesoro High Plains Pipeline, increased NGL processing throughput and pass-through revenue received from Tesoro during the 2016 Period, in which we recovered a temporary fee related to right-of-way costs, partially offset by a decrease in crude oil trucking revenues as a result of increased usage of the Tesoro High Plains Pipeline.

OPERATING AND MAINTENANCE EXPENSES. Operating and maintenance expenses for the 2016 Period increased \$18 million to \$207 million from \$189 million for the 2015 Period primarily due to the reporting of gross operating and maintenance expense related to our transactions with RGS for the 2016 Period that were previously eliminated in the 2015 Period in consolidation and higher costs associated with the LA Storage and Handling Assets.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses decreased \$7 million to \$46 million in the 2016 Period compared to the 2015 Period primarily due to higher costs in 2015 due to integration efforts in connection with the QEPFS acquisition.

INTEREST AND FINANCING COSTS, NET. Net interest and financing costs increased \$14 million to \$89 million from \$75 million for the 2015 Period primarily related to the issuance of new senior notes during the 2016 Period and borrowings on the Dropdown Credit Facility related to the acquisition of the LA Storage and Handling Assets and write-off of debt issuance costs in connection with debt transactions as discussed in the "Capital Resources and Liquidity" section.

OTHER INCOME, NET. The 2016 Period includes a settlement gain of \$6 million related to the legal settlement discussed further in Part II, Item 1 of this Quarterly Report on Form 10-Q.

SEGMENT RESULTS OF OPERATIONS

GATHERING SEGMENT

Our Gathering segment consists of crude oil, natural gas and produced water gathering systems in the Bakken Region and the Rockies Region. Our High Plains System, located in the Bakken Region, gathers and transports crude oil from various production locations in this area for transportation to Tesoro's North Dakota refinery and other destinations in the Bakken Region, including export rail terminals and pipelines. Our natural gas gathering systems include the gathering systems of our equity method investments. In addition, we own four gathering systems and two pipelines regulated by the Federal Energy Regulatory Commission through, which we provide natural gas and crude oil transportation services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GATHERING SEGMENT OPERATING RESULTS (in millions, except volumes, revenue per barrel and revenue per MMBtu amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Gas gathering revenues	\$ 40	\$ 46	\$ 83	\$ 82
Crude oil gathering pipeline revenues	32	30	67	57
Crude oil gathering trucking revenues	9	13	18	27
Other revenues	1	—	5	—
Total Revenues	82	89	173	166
Costs and Expenses				
Operating and maintenance expenses (a)	30	24	62	47
General and administrative expenses	2	3	5	6
Depreciation and amortization expenses	14	17	29	34
Loss on asset disposals and impairments	—	—	1	—
Total Costs and Expenses	46	44	97	87
Gathering Segment Operating Income	\$ 36	\$ 45	\$ 76	\$ 79

Volumes

Gas gathering throughput (thousands of MMBtu/d) (b)	854	1,071	878	1,046
Average gas gathering revenue per MMBtu (b)	\$ 0.51	\$ 0.48	\$ 0.52	\$ 0.43
Crude oil gathering pipeline throughput (Mbpd)	208	187	212	173
Average crude oil gathering pipeline revenue per barrel	\$ 1.72	\$ 1.71	\$ 1.74	\$ 1.80
Crude oil gathering trucking volume (Mbpd)	30	45	29	46
Average crude oil gathering trucking revenue per barrel	\$ 3.30	\$ 3.32	\$ 3.27	\$ 3.28

- (a) Operating and maintenance expenses include imbalance settlement gains of \$1 million for the both the three months ended June 30, 2016 and 2015, and \$1 million and \$2 million for the six months ended June 30, 2016 and 2015, respectively.
- (b) Prior to the deconsolidation of RGS as of January 1, 2016, fees paid by us to RGS were eliminated upon consolidation and third-party transactions, including revenue and throughput volumes, were included in our results of operations. Third party volumes associated with RGS, included in gas gathering volume for the three and six months ended June 30, 2015, were both 146 thousand MMBtu/d and reduced our average gas gathering revenue per MMBtu by \$0.05 for both periods.

THREE MONTHS ENDED JUNE 30, 2016 VERSUS THREE MONTHS ENDED JUNE 30, 2015

VOLUMES. Average crude oil gathering pipeline throughput volumes increased 21 Mbpd, or 11%, in the 2016 Quarter as a result of projects to expand the pipeline gathering system and interconnections with additional origin and destinations. Crude oil gathering trucking volumes decreased 15 Mbpd, or 33%, during the 2016 Quarter as more volumes were gathered via pipeline on to our High Plains Pipeline. The decrease in gas gathering throughput volumes of 217 MMBtu/d, or 20% in the 2016 Quarter as compared to the 2015 Quarter was primarily driven by the exclusion of volumes associated with RGS following our deconsolidation of RGS in 2016 well as declines in natural gas production leading to reduced volumes on our gathering system.

FINANCIAL RESULTS. Gathering revenues decreased \$7 million, or 8%, to \$82 million for the 2016 Quarter compared to \$89 million in the 2015 Quarter primarily due to the recognition of revenue associated with volume shortfalls for one of our customers during the 2015 Quarter partially offset by an increase in the average gas gathering rates. In addition, crude oil gathering trucking revenues decreased due to lower volumes in the 2016 Quarter relative to the 2015 Quarter given increased usage of the High Plains Pipeline in lieu of trucking. Partially offsetting the decrease in gas gathering and crude oil trucking were increases to crude oil gathering pipeline revenues as a result of higher crude oil pipeline throughput on our High Plains Pipeline.

Operating and maintenance expenses increased \$6 million, or 25%, to \$30 million in the 2016 Quarter compared to \$24 million in the 2015 Quarter related to the reporting of gross operating and maintenance expenses related to our transactions with RGS for the 2016 Quarter that were previously eliminated in the 2015 Quarter. Operating and maintenance expenses for the rest of the Gathering segment were relatively flat in the 2016 Quarter compared to the 2015 Quarter.

SIX MONTHS ENDED JUNE 30, 2016 VERSUS SIX MONTHS ENDED JUNE 30, 2015

VOLUMES. Average crude oil gathering pipeline throughput volumes increased 39 Mbpd, or 23%, in the 2016 Period as a result of projects to expand the pipeline gathering system and interconnections with additional origin and destinations. Crude oil gathering trucking volumes decreased 17 Mbpd, or 37%, during the 2016 Period as more volumes were gathered via pipeline on to our High Plains Pipeline. The decrease in gas gathering throughput volumes of 168 MMBtu/d, or 16% in the 2016 Period as compared to the 2015 Period is driven by the the exclusion of volumes associated with RGS following our deconsolidation of RGS in 2016 as well as declines in natural gas production leading to reduced volumes on our gathering system.

FINANCIAL RESULTS. Gathering revenues increased \$7 million, or 4%, to \$173 million for the 2016 Period compared to \$166 million in the 2015 Period primarily due to pass-through revenue received from Tesoro during the 2016 Period, which recovered a temporary fee related to right-of-way costs. Additionally, higher crude oil pipeline throughput on our High Plains Pipeline was partially offset by decreases in crude oil gathering trucking revenues due to lower volumes in the 2016 Period relative to the 2015 Period as a result of increased usage of the High Plains Pipeline in lieu of trucking. Gas gathering revenues were relatively flat as increases in the average gas gathering rate recognized were offset by a decline in gas gathering throughput as natural gas production has declined.

Operating and maintenance expenses increased \$15 million, or 32%, to \$62 million in the 2016 Period compared to \$47 million in the 2015 Period primarily related to the reporting of gross operating and maintenance expense related to our transactions with RGS for the 2016 Period that were previously eliminated in the 2015 Period. Operating and maintenance expenses for the rest of the Gathering segment were relatively flat in the 2016 Period compared to the 2015 Period.

PROCESSING SEGMENT

PROCESSING SEGMENT OPERATING RESULTS (in millions, except MMBtu/d, Mbpd and revenue per MMBtu and fee per barrel)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
NGLs processing revenues	\$ 25	\$ 25	\$ 51	\$ 45
Fee-based processing revenues	25	24	51	53
Other processing revenues	18	18	37	36
Total Revenues	68	67	139	134
Costs and Expenses				
Operating and maintenance expenses	29	30	60	60
General and administrative expenses	—	2	—	4
Depreciation and amortization expenses	12	11	23	22
Total Costs and Expenses	41	43	83	86
Processing Segment Operating Income	\$ 27	\$ 24	\$ 56	\$ 48
Volumes				
NGLs processing throughput (Mbpd)	7.4	7.8	7.8	7.4
Average keep-whole fee per barrel of NGLs	\$ 36.60	\$ 35.14	\$ 35.81	\$ 33.60
Fee-based processing throughput (thousands of MMBtu/d)	645	768	660	729
Average fee-based processing revenue per MMBtu	\$ 0.43	\$ 0.36	\$ 0.43	\$ 0.40

THREE MONTHS ENDED JUNE 30, 2016 VERSUS THREE MONTHS ENDED JUNE 30, 2015

VOLUMES. Fee-based processing volumes decreased 123 thousand MMBtu/d, or 16%, to 645 thousand MMBtu/d in the 2016 Quarter as a result of lower natural gas production being delivered to our processing systems. Average NGLs processing volumes decreased slightly by 0.4 Mbpd, or 5%, to 7.4 Mbpd in the 2016 Quarter.

FINANCIAL RESULTS. Processing revenues were relatively flat at \$68 million for the 2016 Quarter compared to \$67 million in the 2015 Quarter. Improved utilization of our processing facilities along with annual rate escalations resulted in increased NGL processing rates, offset by a decline in volumes in the 2016 Quarter compared to the 2015 Quarter.

SIX MONTHS ENDED JUNE 30, 2016 VERSUS SIX MONTHS ENDED JUNE 30, 2015

VOLUMES. Fee-based processing volumes decreased 69 thousand MMBtu/d, or 9%, to 660 thousand MMBtu/d in the 2016 Period as a result of lower natural gas production being delivered to our processing systems. Average NGLs processing volumes increased marginally by 0.4 Mbpd, or 5%, to 7.8 Mbpd in the 2016 Period as a result of increased optimization of our processing facilities, partially offset by decreased production of fee-based gas customers.

FINANCIAL RESULTS. Processing revenues increased \$5 million, or 4%, to \$139 million for the 2016 Period compared to \$134 million in the 2015 Period primarily due to an increase in the average keep-whole processing fee per barrel of NGLs as well as the increase in the processing volumes. Improved utilization of our processing facilities along with annual rate escalations resulted in increased NGL processing and fee-based processing rates, offset by a decline in fee-based processing volumes in the 2016 Period compared to the 2015 Period due to production declines.

TERMINALLING AND TRANSPORTATION SEGMENT

Our Terminalling and Transportation segment consists of regulated common carrier refined products pipeline systems, crude oil and refined products terminals and storage facilities, a rail-car unloading facility, a petroleum coke handling and storage facility and other pipelines, which transport products and crude oil from Tesoro's refineries to nearby facilities.

TERMINALLING AND TRANSPORTATION SEGMENT OPERATING RESULTS (in millions, except barrel and per barrel amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues (a)				
Terminalling revenues	\$ 112	\$ 92	\$ 220	\$ 182
Pipeline transportation revenues	31	27	61	56
Total Revenues	143	119	281	238
Costs and Expenses				
Operating and maintenance expenses (b)	43	45	85	82
General and administrative expenses	7	8	16	16
Depreciation and amortization expenses	18	16	36	32
Total Costs and Expenses	68	69	137	130
Terminalling and Transportation Segment Operating Income	\$ 75	\$ 50	\$ 144	\$ 108
Volumes				
Terminalling throughput (Mbpd)	994	913	950	916
Average terminalling revenue per barrel	\$ 1.24	\$ 1.10	\$ 1.27	\$ 1.10
Pipeline transportation throughput (Mbpd)	867	801	845	810
Average pipeline transportation revenue per barrel	\$ 0.40	\$ 0.38	\$ 0.40	\$ 0.38

(a) Our Predecessor did not record revenue for transactions with Tesoro in the Terminalling and Transportation segment prior to the effective date of the acquisition of the LA Storage and Handling Assets.

(b) Operating and maintenance expenses include imbalance settlement gains of \$1 million for both the three months ended June 30, 2016 and 2015, and \$2 million for both the six months ended June 30, 2016 and 2015.

THREE MONTHS ENDED JUNE 30, 2016 VERSUS THREE MONTHS ENDED JUNE 30, 2015

VOLUMES. Terminalling throughput volumes increased 81 Mbpd, or 9%, primarily due to storage assets and commercial agreements with Tesoro executed in connection with the LA Storage and Handling Asset acquisition. Pipeline transportation throughput volumes increased 66 Mbpd, or 8%, in the 2016 Quarter compared to the 2015 Quarter primarily due to higher pipeline volumes in southern California as a result of the acquired assets and increased throughput along the Salt Lake City pipeline in the 2016 Quarter as a result of maintenance activities on the system during the 2015 Quarter.

FINANCIAL RESULTS. Revenues increased \$24 million, or 20%, to \$143 million in the 2016 Quarter compared to \$119 million in the 2015 Quarter primarily as a result of the commercial storage agreements executed with Tesoro in connection with the LA Storage and Handling Asset acquisition as well as increased pipeline transportation throughput volumes.

SIX MONTHS ENDED JUNE 30, 2016 VERSUS SIX MONTHS ENDED JUNE 30, 2015

VOLUMES. Terminalling throughput volumes increased 34 Mbpd, or 4% and pipeline transportation throughput volumes increased 35 Mbpd, or 4%, in the 2016 Period compared to the 2015 Period primarily due to storage assets and commercial agreements with Tesoro executed in connection with the LA Storage and Handling Asset acquisition.

FINANCIAL RESULTS. Revenues increased \$43 million, or 18%, to \$281 million in the 2016 Period compared to \$238 million in the 2015 Period primarily as a result of the commercial storage agreements executed with Tesoro in connection with the LA Storage and Handling Asset acquisition as well as increased pipeline transportation throughput volumes.

CAPITAL RESOURCES AND LIQUIDITY

OVERVIEW

Our primary cash requirements relate to funding capital expenditures, acquisitions, meeting operational needs and paying distributions to our unitholders. We expect our ongoing sources of liquidity to include cash generated from operations, reimbursement for certain maintenance and expansion expenditures, borrowings under the secured revolving credit facility (the "Revolving Credit Facility"), the Dropdown Credit Facility and issuances of additional debt and equity securities. We believe that cash generated from these sources will be sufficient to meet our short-term working capital, long-term capital expenditure, acquisition and debt servicing requirements and allow us to fund at least the minimum quarterly cash distributions.

CAPITALIZATION

CAPITAL STRUCTURE (in millions)

	June 30, 2016	December 31, 2015
Debt principal, including current maturities:		
Credit Facilities	\$ 239	\$ 555
Senior Notes	3,020	2,320
Capital lease obligations	7	8
Total Debt	3,266	2,883
Unamortized Issuance Costs (a)	(48)	(39)
Debt, Net of Unamortized Issuance Costs	3,218	2,844
Total Equity	2,010	1,778
Total Capitalization	\$ 5,228	\$ 4,622

(a) Includes unamortized premiums of \$4 million associated with our senior notes at both June 30, 2016 and December 31, 2015.

EQUITY OVERVIEW

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

UNIT ISSUANCE. We closed a registered public offering of 6,325,000 common units representing limited partner interests, including the over-allotment option exercised by the underwriter for the purchase of an additional 825,000 common units, at a

MANAGEMENT'S DISCUSSION AND ANALYSIS

public offering price of \$47.13 per unit on June 10, 2016. The net proceeds of \$293 million are expected to be used for general partnership purposes, which may include future acquisitions, capital expenditures and additions to working capital.

ATM PROGRAM On August 24, 2015, we filed a prospectus supplement to our shelf registration statement filed with the Securities and Exchange Commission ("SEC") on August 6, 2015, authorizing the continuous issuance of up to an aggregate of \$750 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 and six months ended June 30, 2016, we issued an aggregate of 732,949 and 792,647 common units, respectively, under our ATM Program, generating proceeds of approximately \$36 million and \$38 million, respectively, before issuance costs. We paid fees of less than \$0.4 million related to the issuance of units under this program for both the three and six months ended June 30, 2016. The net proceeds from sales under the ATM Program will be used for general partnership purposes, which may include debt repayment, future acquisitions, capital expenditures and additions to working capital.

DEBT OVERVIEW AND AVAILABLE LIQUIDITY

Our secured Revolving Credit Facility, secured Dropdown Credit Facility and Senior Notes due 2019, 2020, 2021, and 2022 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, 2015. As discussed below, on May 9, 2016, we issued senior notes due in 2024 that have substantially the same covenants as the existing senior notes. We do not believe that these limitations will restrict our ability to pay distributions. Additionally, our secured Revolving Credit Facility and secured Dropdown Credit Facility contain 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, 2016.

AVAILABLE CAPACITY UNDER OUR CREDIT FACILITIES (in millions)

	Total Capacity	Amount Borrowed as of June 30, 2016	Available Capacity	Weighted Average Interest Rate	Expiration
Revolving Credit Facility	\$ 600	\$ —	\$ 600	—%	January 29, 2021
Dropdown Credit Facility	1,000	239	761	4.51%	January 29, 2021
Total Credit Facilities	\$ 1,600	\$ 239	\$ 1,361		

EXPENSES AND FEES OF OUR CREDIT FACILITIES

Credit Facility	30 day Eurodollar (LIBOR) Rate at June 30, 2016	Eurodollar Margin	Base Rate	Base Rate Margin	Commitment Fee (unused portion)
Revolving Credit Facility (a)	0.47%	2.00%	3.50%	1.00%	0.38%
Dropdown Credit Facility (a)	0.47%	2.01%	3.50%	1.01%	0.38%

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

SENIOR NOTES ISSUANCE In May 9, 2016, we completed a registered offering of \$250 million aggregate principal amount of 6.125% Senior Notes due 2021 ("2021 Notes") and \$450 million aggregate principal amount of 6.375% Senior Notes due 2024 ("2024 Notes"). We used the proceeds of the offering of the 2021 notes to repay amounts outstanding under our dropdown credit facility and the proceeds of the offering of the 2024 notes to repay amounts outstanding under our revolving credit facility and for general partnership purposes. See Note 5 in Part I, Item 1 of this Quarterly Report for additional information on the 2021 Notes and 2024 Notes.

DEBT REPAYMENTS On February 3, 2016, we paid the full amount of the Unsecured Term Loan Facility, including accrued interest, with proceeds drawn from the secured Dropdown Credit Facility. All commitments under the Unsecured Term Loan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Facility were terminated effective with the repayment and an immaterial amount of unamortized debt issuance costs were expensed.

SENIOR NOTES EXCHANGE. On February 26, 2016, the Partnership commenced an offer to exchange (the "Exchange") its existing unregistered 5.50% Senior Notes due 2019 ("2019 Notes") and 6.25% Senior Notes due 2022 ("2022 Notes") (together, "Unregistered Notes") for an equal principal amount of 5.50% Senior Notes due 2019 and 6.25% Senior Notes due 2022 (the "Exchange Notes"), respectively, that were registered under the Securities Act of 1933, as amended. On April 14, 2016, the Exchange was completed for all of the 2019 Notes and substantially all of the 2022 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 fulfills all of the requirements of the registration rights agreements for the Unregistered Notes.

SOURCES AND USES OF CASH

COMPONENTS OF CASH FLOWS (in millions)

	Six Months Ended June 30,	
	2016	2015
Cash Flows From (Used In):		
Operating Activities	\$ 252	\$ 213
Investing Activities	(97)	(169)
Financing Activities	511	(50)
Increase (Decrease) in Cash and Cash Equivalents	\$ 666	\$ (6)

OPERATING ACTIVITIES. Net cash from operating activities increased \$39 million to \$252 million in the 2016 Period compared to \$213 million for the 2015 Period. The increase in cash from operations was primarily driven by the increase in net earnings of \$38 million from the 2015 Period to the 2016 Period and a \$11 million impact of non-cash items were offset by the change in working capital.

INVESTING ACTIVITIES. Net cash used in investing activities for the 2016 Period decreased \$72 million to \$97 million compared to \$169 million in the 2015 Period. The decrease related to this outflow was a result of higher capital expenditures in the 2015 Period including spending related to the construction of the Connolly Gathering System, the second phase of the Bakken area storage hub, and various projects on our Southern California distribution system. See "Capital Expenditures" below for a discussion of the various maintenance and growth projects in the 2016 Period.

FINANCING ACTIVITIES. Net cash provided by financing activities for the 2016 Period was \$511 million compared to a use of cash of \$50 million for the 2015 Period. We received \$701 million of proceeds from debt offerings and \$334 million in net proceeds from issuances of units. Offsetting these proceeds were higher quarterly cash distributions totaling \$206 million during the 2016 Period compared to quarterly cash distributions totaling \$140 million paid in the 2015 Period. We paid down \$66 million of net borrowings under our secured Revolving Credit Facility during the 2016 Period and paid off the Unsecured Term Loan Facility of \$250 million.

CAPITAL EXPENDITURES

The Partnership's operations are capital intensive, requiring investments to expand, upgrade or enhance existing operations and to maintain assets and ensure regulatory compliance. Growth 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, in our terminals and at our processing facilities, increase storage capacity, increase well connections and compression as well as other services at our facilities. Maintenance capital expenditures include expenditures required to maintain equipment reliability and integrity and to ensure regulatory compliance. Actual and estimated amounts described below include amounts representing capitalized interest and labor. Our capital expenditures are funded primarily with cash generated from operations, reimbursements for certain growth and maintenance capital expenditures, borrowings under our revolving credit facilities and issuances of additional debt and equity securities, as needed.

During the 2016 Period, we spent \$62 million, net of \$1 million in reimbursements from entities including Tesoro, on growth capital projects and \$10 million, net of \$10 million in reimbursements from entities including Tesoro, on maintenance capital

MANAGEMENT'S DISCUSSION AND ANALYSIS

projects. Cost estimates for projects currently in process or under development are subject to further review, analysis and permitting requirements, which may result in revisions to our current spend estimates.

TLLP's expected 2016 capital expenditures are currently forecasted to total approximately \$240 million, or \$270 million offset by expected reimbursements of \$30 million primarily for maintenance capital expenditures. Our revised capital spending estimate reflects the deferral of several discretionary projects and delays in several growth projects in both the Rockies and Bakken regions attributed to low commodity prices and our current view of spending related to the Los Angeles Refinery Interconnect Pipeline System.

MAJOR GROWTH CAPITAL PROJECTS COMPLETED, IN PROCESS OR UNDER DEVELOPMENT (in millions)

Major Projects	Total Project Expected Capital Expenditures	Actual 2016 Capital Expenditures
Gathering Segment:		
Completed:		
Bakken Area Storage Hub (a)	\$ 30	\$ 4
In Process:		
High Plains Pipeline Expansion (b)	25-30	4
Uinta Compression (c)	50-55	28
Terminalling and Transportation Segment:		
In Process:		
Terminal Expansions (d)	30	5
Under Development:		
Los Angeles Refinery Interconnect Pipeline System (e)	150-200	—

- (a) The construction of the second phase of the Bakken Area Storage Hub provides storage tanks located in two strategic areas of the basin. With its completion, storage capacity has grown to over 1 million barrels.
- (b) Projects to expand crude oil gathering throughput capacity on the High Plains Pipeline in McKenzie County, North Dakota. The expansion project's expected capital expenditures may be reduced as a result of Tesoro's recent acquisition of Great Northern Midstream and associated BakkenLink pipeline.
- (c) Projects to increase compression for our Uinta natural gas gathering systems and expand our gathering system in the Uinta basin. We expect incremental volumes through our processing system upon the completion of the project.
- (d) Projects to increase the throughput capacity and service capabilities at our crude oil and refined products terminals.
- (e) The pipeline interconnect project at the Los Angeles refinery is designed to provide direct connectivity between Tesoro's refining sites. The proposed project is subject to final Board of Directors approval, project scoping, engineering and regulatory approval.

DISTRIBUTIONS

Our partnership agreement, as amended, sets forth the calculation to be used to determine the amount and priority of cash distributions that the limited partner unitholders and general partner will receive.

QUARTERLY DISTRIBUTIONS

Quarter Ended	Total Quarterly Distribution Per Unit	Total Quarterly Distribution Per Unit, Annualized	Total Cash Distribution including general partner incentive distribution rights (in millions)	Date of Distribution	Unitholders Record Date
December 31, 2015	\$ 0.780	\$ 3.12	\$ 98	February 12, 2016	February 2, 2016
March 31, 2016	0.810	3.24	108	May 13, 2016	May 2, 2016
June 30, 2016 (a)	0.842	3.37	123	August 12, 2016	August 2, 2016

- (a) This distribution was declared on July 20, 2016 and will be paid on the date of distribution.

ENVIRONMENTAL AND OTHER MATTERS

ENVIRONMENTAL REGULATIONS 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, natural gas 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, gas processing complexes 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. See Note 6 to our condensed combined consolidated financial statements for additional information regarding environmental regulation and Tesoro indemnification. See our discussion of the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement in Note 3 of our Annual Report on Form 10-K for the year ended December 31, 2015 and Part II, Item 1 of this Quarterly Report on Form 10-Q for more information regarding the indemnification of certain environmental matters provided to us by Tesoro and discussion of other certain environmental obligations.

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 based 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:

- changes in global economic conditions and the effects of a global economic downturn on our business, on the business of our key customers, including Tesoro, and on our customers' suppliers, customers, business partners and credit lenders;
- a material decrease in the crude oil and natural gas produced in the Bakken Shale/Williston Basin area of North Dakota and Montana;
- a material decrease in the natural gas and crude oil produced in the Green River Basin, Uinta Basin and Vermillion Basin in the states of Utah, Colorado and Wyoming;
- the ability of our key customers, including Tesoro, to remain in compliance with the terms of their outstanding indebtedness;
- changes in insurance markets impacting costs and the level and types of coverage available;
- changes in the cost or availability of third-party vessels, pipelines and other means of delivering and transporting crude oil, feedstocks, natural gas, natural gas liquids and refined products;
- the coverage and ability to recover claims under our insurance policies;
- the availability and costs of crude oil, other refinery feedstocks and refined products;
- the timing and extent of changes in commodity prices and demand for refined products, natural gas and NGLs;
- changes in our cash flow from operations;
- impact of QEP Resources' and Questar Gas Company's failure to perform under the terms of our gathering agreements as they are our largest customers in TLLP's natural gas business;
- the risk of contract cancellation, non-renewal or failure to perform by those in our supply and distribution chains, including Tesoro and Tesoro's customers, and the ability to replace such contracts and/or customers;

- the suspension, reduction or termination of Tesoro's obligation under our commercial agreements and our secondment agreement;
- a material decrease in profitability among our customers, including Tesoro;
- earthquakes or other natural disasters affecting operations;
- direct or indirect effects on our business resulting from actual or threatened terrorist incidents, cyber-security breaches or acts of war;
- weather conditions affecting operations by us or our key customers, including Tesoro, or the areas in which the customers we serve operate;
- disruptions due to equipment interruption or failure at our facilities, Tesoro's facilities or third-party facilities on which our key customers, including Tesoro, are dependent;
- changes in the expected value of and benefits derived from acquisitions;
- actions of customers and competitors;
- changes in our credit profile;
- 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, compliance costs or other factors beyond our control;
- operational hazards inherent in refining operations and in transporting and storing crude oil, natural gas, NGLs and refined products;
- changes in capital requirements or in execution and benefits of planned capital projects;
- seasonal variations in demand for natural gas and 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; 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 financial loss arising from adverse changes in market rates and prices. As we do not own the refined products, natural gas 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. Our exposure to commodity price risk related to imbalance gains and losses or to diesel fuel or other supply costs are currently not expected to be material to our financial position and we do not intend to hedge our exposure.

We bear a limited degree of commodity price risk with respect to our gathering contracts. Specifically, pursuant to our contracts, we retain and sell condensate that is recovered during the gathering of natural gas. Thus, a portion of our revenue is dependent on the price received for the condensate. Condensate historically sells at a price representing a slight discount to the price of crude oil. We consider our exposure to commodity price risk associated with these arrangements to be minimal based on the amount of revenues generated under these arrangements compared to our overall revenues. We do not enter into commodity derivative instruments because of the minimal impact of commodity price risk on our liquidity, financial position and results of operations. Assuming all other factors remained constant, a \$1 change in condensate pricing, based on our quarter-to-date average throughput, would be less than \$0.1 million on an annual basis. This analysis may differ from actual results.

We process gas for certain producers under keep-whole processing agreements. Under a keep-whole agreement, a producer transfers title to the NGLs produced during gas processing, and we as the processor, in exchange, deliver to the producer natural

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

gas with a British thermal unit content equivalent to the NGLs removed. We have entered into an agreement with Tesoro ("Keep-Whole Agreement") to transfer the market risk associated with the purchase of natural gas. The Keep-Whole Amendment provides that the service fees payable for incremental volumes of NGLs above 315,000 gallons per day will be a mutually agreed upon fee. See Note 3 of our Annual Report on Form 10-K for the year ended December 31, 2015, for additional information on our Keep-Whole Agreement.

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 and Dropdown 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 debt were approximately \$3.3 billion and \$3.4 billion as of June 30, 2016, respectively. The carrying value and fair value of our debt were approximately \$2.9 billion and \$2.8 billion at December 31, 2015, respectively. Unless interest rates increase significantly in the future, our exposure to interest rate risk should be minimal. With all other variables constant, a 0.25% change in the interest rate associated with the borrowings outstanding under our Revolving Credit Facility or Dropdown Credit Facility at June 30, 2016, would change annual interest expense by less than \$1 million. As of June 30, 2016, we had \$239 million of borrowings outstanding under our Dropdown Credit Facility. There were no borrowings outstanding under our Revolving Credit Facility as of June 30, 2016. Any change in interest rates would affect cash flows, but not the fair value of the debt we incur under our Revolving Credit Facility and Dropdown Credit Facility.

We do not currently have in place any hedges or forward contracts to reduce our exposure to interest rate risks; however, we continue to monitor the market and our exposure, and 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 SEC rules) during the quarter ended June 30, 2016 that have materially affected or are reasonably likely to materially affect these controls.

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.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, we may become party to lawsuits, administrative proceedings and governmental investigations, including environmental, regulatory and other matters. The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015. Although we cannot provide assurance, we believe that an adverse resolution of the matters described below will not have a material impact on our liquidity, consolidated financial position, or results of operations.

TIOGA, NORTH DAKOTA CRUDE OIL PIPELINE RELEASE. In September 2013, the Partnership responded to the release 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 to restore the site for agricultural use. We have liabilities totaling \$19 million and \$27 million at June 30, 2016 and December 31, 2015, respectively. This incident was covered by our pollution legal liability insurance policy, subject to a \$1 million deductible and a \$25 million loss limit. Pursuant to this policy, we have received all insurance recoveries related to the Crude Oil Pipeline Release as of December 31, 2015. The estimated remediation costs of \$66 million exceeded our policy loss limit by \$41 million.

On March 24, 2016, we received a closure letter from the U.S. Department of Transportation, through the Pipeline and Hazardous Materials Safety Administration (“PHMSA”) concerning PHMSA’s October 31, 2013 safety order related to the Crude Oil Pipeline Release. No further action is required to comply with the safety order.

QUESTAR GAS COMPANY V. QEP FIELD SERVICES COMPANY. Pursuant to the acquisition of all of the limited liability company interests of QEP Field Services, LLP (“QEPFS”), QEPFS’ former affiliate, Questar Gas Company (“QGC”) and its affiliate Wexpro, filed a complaint on May 1, 2012, asserting claims for breach of contract, breach of implied covenant of good faith and fair dealing, and an accounting and declaratory judgment related to a 1993 gathering agreement (the “1993 Agreement”) executed when the parties were affiliates. TLLP agreed to indemnify QEP Field Services Company for this claim under the acquisition agreement for QEPFS. Under the 1993 Agreement, certain of TLLP’s systems provide gathering services to QGC charging an annual gathering rate, which is based on the cost of service calculation. QGC disputed the annual calculation of the gathering rate, which has been calculated in the same manner since 1998, without objection by QGC. As a result of the rulings through the date of our acquisition of QEPFS, TLLP assumed a \$21 million liability for estimated damages. On March 22, 2016, the parties in this dispute entered into a settlement and release agreement resolving all remaining issues and associated counter claims in exchange for TLLP’s payment of \$15 million.

XTO ENERGY INC. V. QEP FIELD SERVICES COMPANY. XTO Energy Inc. (“XTO”) filed a complaint on January 30, 2014, asserting claims for breach of contract, breach of implied covenant of good faith and fair dealing, unjust enrichment and an accounting and declaratory judgment related to a 2010 gas processing agreement (the “XTO Agreement”). TLLP processes XTO’s natural gas on a firm basis under the XTO Agreement. The XTO Agreement requires TLLP to transport, fractionate and market XTO’s natural gas liquids derived from XTO’s processed gas. XTO is seeking monetary damages related to TLLP’s allocation of charges related to XTO’s share of natural gas liquid transportation, fractionation and marketing costs associated with shortfalls in contractual firm processing volumes. On March 29, 2016, the parties entered into a settlement and release agreement related to payments withheld by XTO unrelated to the allocation of charges they are challenging. Under the settlement and release agreement, XTO agreed to pay all historical undisputed charges by April 15, 2016 less the \$22 million of allocated charges they are challenging, and to thereafter tender all similar undisputed charges timely. On April 15, 2016, XTO remitted a \$21 million settlement payment related to all undisputed amounts.

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, 2015.

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

We may acquire units to satisfy tax withholding obligations in connection with the vesting of units issued to certain employees. There were no such units acquired during the three months ended June 30, 2016.

ITEM 5. OTHER INFORMATION

QEP MIDSTREAM, LP LONG-TERM INCENTIVE PLAN On July 20, 2016, the Amended and Restated QEP Midstream, LP Long-Term Incentive Plan (the “Plan”) was terminated. The Plan had 1,633,411 units authorized and available for issuance as of December 31, 2015 that are no longer available as a result of the termination. These units were inadvertently omitted in the table regarding Tesoro Logistics GP, LLC’s equity compensation plans in Part III, Item 12 of our Annual Report on Form 10-K for December 31, 2015.

WAIVER AND RELEASE OF THE AMENDED & RESTATED MANAGEMENT STABILITY AGREEMENT On August 2, 2016, Tesoro Corporation and Don J. Sorensen entered into a Waiver and Release (“the “Waiver”) to the Amended & Restated Management Stability Agreement originally executed on December 31, 2008 (the “Agreement”). Under the terms of the Waiver, Mr. Sorensen waived and released any and all rights and benefits under the Agreement and the parties formally terminated the Agreement. In light of such termination of the Agreement, Mr. Sorensen will participate in Tesoro’s Executive Severance and CIC Plan.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Description of Exhibit
2.1	Contribution, Conveyance and Assumption Agreement, dated as of July 1, 2016, among Tesoro Logistics LP, Tesoro Logistics GP, LLC, Tesoro Logistics Operations LLC, Tesoro Alaska Company LLC and Tesoro Corporation (incorporated by reference herein to Exhibit 2.1 to the Partnership’s Current Report on Form 8-K filed on July 7, 2016, File No. 1-35143).
*3.1	Corrected Amendment No. 3 to the Second Amended and Restated Limited Liability Company Agreement of Tesoro Logistics GP, LLC, dated as of July 1, 2016, between Tesoro Corporation, Tesoro Refining & Marketing Company LLC and Tesoro Alaska Company LLC.
4.1	Fifth Supplemental Indenture, dated as of May 12, 2016, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 2021 Notes (incorporated by reference herein to Exhibit 4.1 to the Partnership’s Current Report on Form 8-K filed on May 12, 2016, File No. 1-35143).
4.2	Indenture (including form of note), dated as of May 12, 2016, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 2024 Notes (incorporated by reference herein to Exhibit 4.2 to the Partnership’s Current Report on Form 8-K filed on May 12, 2016, File No. 1-35143).
10.1	Amendment No. 2 to Secondment and Logistics Services Agreement, dated as of March 31, 2016, among Tesoro Refining & Marketing Company LLC, Tesoro Companies Inc., Tesoro Alaska Company LLC, Tesoro Great Plains Midstream LLC, Tesoro Great Plains Gathering and Marketing LLC, BakkenLink Pipeline LLC, ND Land Holdings LLC, Tesoro Alaska Terminals LLC, Tesoro Logistics GP LLC, Tesoro Logistics Operations LLC, Tesoro Logistics Pipelines LLC, Tesoro High Plains Pipeline Company LLC, Tesoro Logistics Northwest Pipeline LLC, Tesoro Alaska Pipeline Company LLC, QEP Field Services LLC, QEP Midstream Partners Operating LLC, QEPM Gathering I LLC, Rendezvous Pipeline Company LLC, and Green River Processing LLC (incorporated by reference herein to Exhibit 10.1 to the Partnership’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016, File No. 1-35143).
10.2	Ground Lease, dated as of July 1, 2016, between Tesoro Alaska Company LLC and Tesoro Logistics Operations LLC (incorporated by reference herein to Exhibit 10.1 to the Partnership’s Current Report on Form 8-K filed on July 7, 2016, File No. 1-35143).
10.3	Second Amended and Restated Schedules to the Third Amended and Restated Omnibus Agreement, dated as of July 1, 2016, among Tesoro Logistics LP, Tesoro Logistics GP, LLC, Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Alaska Company LLC and Tesoro Companies, Inc. (incorporated by reference herein to Exhibit 10.2 to the Partnership’s Current Report on Form 8-K filed on July 7, 2016, File No. 1-35143).
10.4	Kenai Storage Services Agreement, dated as of July 1, 2016, among Tesoro Alaska Company LLC, Tesoro Logistics Operations LLC, Tesoro Logistics GP, LLC and Tesoro Logistics LP (incorporated by reference herein to Exhibit 10.3 to the Partnership’s Current Report on Form 8-K filed on July 7, 2016, File No. 1-35143).
*#10.5	Amended and Restated Tesoro Corporation Executive Severance and Change in Control Plan effective May 1, 2013.
*#10.6	Waiver and Release of the Amended & Restated Management Stability Agreement of Don J. Sorenson.
*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.

EXHIBITS

Exhibit Number	Description of Exhibit
*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
#	Compensatory plan or arrangement

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 4, 2016

By: /s/ GREGORY J. GOFF
Gregory J. Goff
Chief Executive Officer
(Principal Executive Officer)

Date: August 4, 2016

By: /s/ STEVEN M. STERIN
Steven M. Sterin
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

AMENDMENT No. 3 TO THE SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF TESORO LOGISTICS GP, LLC

THIS AMENDMENT NO. 3 TO THE SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF TESORO LOGISTICS GP, LLC (the "**Amendment No. 3**"), is made and entered into by and among Tesoro Logistics GP, LLC a Delaware limited liability company (the "**General Partner**"), Tesoro Corporation, a Delaware corporation ("**Tesoro**"), Tesoro Refining & Marketing Company LLC, a Delaware limited liability company, formerly known as Tesoro Refining and Marketing Company ("**TRMC**"), and Tesoro Alaska Company LLC, a Delaware limited liability company, formerly known as Tesoro Alaska Company ("**TAC**"), effective as of the July 1, 2016 (the "**Effective Date**").

RECITALS

WHEREAS, Tesoro Logistics GP, LLC, a Delaware limited liability company (the "**General Partner**"), was formed on December 3, 2010;

WHEREAS, Tesoro, as the sole member of the General Partner, executed the Amended and Restated Limited Liability Company Agreement of the General Partner dated as of April 25, 2011, and Tesoro and TRMC amended that agreement on April 1, 2012, November 15, 2012, June 1, 2013 and December 6, 2013; and

WHEREAS, the General Partner, Tesoro, TRMC and TAC executed the Second Amended and Restated Limited Liability Company Agreement of the General Partner dated as of July 1, 2014 (the "**LLC Agreement**");

WHEREAS, the General Partner, Tesoro, TRMC and TAC executed an Amendment No. 1 to the LLC Agreement effective as of September 30, 2014 and an Amendment No. 2 to the LLC Agreement effective as of November 12, 2015;

WHEREAS, the General Partner, Tesoro, TRMC and TAC now desire to amend the LLC Agreement to revise the membership interests as of the Effective Date.

NOW, THEREFORE, in consideration of the premises, covenants and agreements contained in the LLC Agreement and this Amendment No. 3, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Amendment to Exhibit A of the LLC Agreement. Exhibit A of the LLC Agreement is hereby amended and restated in its entirety to read as set forth in Annex A to this Amendment No. 3.

Section 2. Limited Amendment. Except as expressly set forth herein, this Amendment No. 3 shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of the parties hereto under the LLC Agreement, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the LLC Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

Section 3. Governing Law, Construction. This Amendment No. 3 is governed by and shall be construed in accordance with the Law of the State of Delaware. In the event of a direct conflict between the provisions of this Amendment No. 3 and any mandatory, non-waivable provision of the Act, such provision of the Act shall control.

Section 4. Capitalized Terms. Capitalized terms not otherwise defined in this Amendment No. 3 have the meanings set forth in the LLC Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment No. 3 effective as of the first date written above.

THE GENERAL PARTNER:

TESORO LOGISTICS GP, LLC

By: _____
Phillip M. Anderson
President

MEMBERS:

TESORO CORPORATION

By: _____
Gregory J. Goff
President and Chief Executive Officer

TESORO ALASKA COMPANY LLC

By: _____
Gregory J. Goff
President

TESORO REFINING & MARKETING COMPANY LLC

By: _____
Gregory J. Goff
President

ANNEX A

MEMBERS

<u>Member</u>	<u>Sharing Ratio</u>	<u>Capital Contribution</u>
		\$1,000.00 plus \$63 million in assets contributed on April 26, 2011 in connection with the initial public offering of Tesoro Logistics LP.
		100% of the equity interests of Tesoro Alaska Pipeline Company LLC, pursuant to the Contribution, Conveyance and Assumption Agreement dated June 23, 2014
Tesoro Corporation	3.6%	The Nikiski Assets, pursuant to the Contribution, Conveyance and Assumption Agreement dated June 23, 2014
		The Kenai Tankage pursuant to the First Closing under the Contribution, Conveyance and Assumption Agreement dated July 1, 2016
		The TAT Units pursuant to the Second Closing under the Contribution, Conveyance and Assumption Agreement dated July 1, 2016
Tesoro Alaska Company LLC	11.5%	

Tesoro Refining & Marketing
Company LLC

The Amorco Wharf assets, pursuant to the Contribution,
Conveyance and Assumption Agreement effective date April
1, 2012.

The Long Beach assets, pursuant to the Contribution,
Conveyance and Assumption Agreement effective date
September 14, 2012.

The Anacortes Rail Facility assets, pursuant to the
Contribution, Conveyance, and Assumption Agreement
effective date November 15, 2012.

The BP Carson assets, pursuant to the Contribution,
Conveyance and Assumption Agreement dated May 17, 2013
and effective as of June 1, 2013.

The BP Carson Tranche 2 assets, pursuant to the Contribution,
Conveyance and Assumption Agreement dated November 18,
2013 and effective as of December 6, 2013.

The Anacortes Assets and Martinez Assets, pursuant to the
Contribution, Conveyance and Assumption Agreement dated
June 23, 2014

Tesoro Refining & Marketing
Company LLC (*continued*)

84.9%

The Tankage, pursuant to the Contribution, Conveyance and
Assumption Agreement effective as of November 12, 2015

TESORO CORPORATION

EXECUTIVE SEVERANCE AND CHANGE IN CONTROL PLAN

EFFECTIVE JANUARY 12, 2011

(as AMENDED AND RESTATED EFFECTIVE MAY 1, 2013)

TESORO CORPORATION

EXECUTIVE SEVERANCE AND CHANGE IN CONTROL PLAN

PREAMBLE

The principal objective of this Executive Severance and Change in Control Plan (the “Plan”) is to reduce uncertainty to select executives of the Company and its Subsidiaries in the event of certain fundamental events involving the control or existence of the Company as well as to provide a benefit in the event of an executive’s termination of employment under certain conditions that are beyond the executive’s control. The Plan is designed to provide a benefit that will meet the objectives described above. The Plan is intended to conform to the requirements of Section 409A of the Code, together with the Regulations, and is intended to qualify as an unfunded plan maintained primarily for the purpose of providing benefits for a select group of management and highly compensated employees of the Company and its Subsidiaries.

SECTION I DEFINITIONS

- 1.1 **“Affiliate”** means each entity that would be considered a single employer with the Company under Section 414(b) or Section 414(c) of the Code, except that the phrase “at least 50%” shall be substituted for the phrase “at least 80%” as used therein.
- 1.2 **“Aggregated Plan”** means all agreements, methods, programs and other arrangements that are aggregated with this Plan under Section 1.409A-1(c) of the Regulations.
- 1.3 **“Base Salary”** means the rate of base pay as in effect for a Participant on the effective date of such Participant’s eligibility for a benefit hereunder, as provided in Section II hereof.
- 1.4 **“Board”** means the Board of Directors of the Company.
- 1.5 **“Bonus”** means (i) for purposes of determining the amount of a Participant’s Change in Control Benefit, as provided in Section 3.1 hereof, the target bonus applicable to a Participant under the Company’s annual incentive program for the year in which such Participant’s employment terminates under conditions that result in the eligibility of such Participant for a Change in Control Benefit hereunder or (ii) for purposes of determining the amount of the Severance Benefit for each Participant other than the Chief Executive Officer, as provided in Section 3.2 hereof, the average of the actual bonuses paid under the Company’s annual incentive program during the three (3)-year period ending on the date of the Participant’s termination of employment under conditions that result in the eligibility of such Participant for a Severance Benefit hereunder; provided, however, in the event that the Participant has been employed for fewer than three (3) years from the date of his most recent employment to the date of such termination of employment, the Bonus will be calculated by adding the total amount of the annualized actual bonuses paid during the Participant’s most recent period of employment and dividing that amount

by the number of years with respect to which a bonus was actually paid or (iii) for purposes of determining the amount of the Chief Executive Officer's Severance Benefit, as provided in Section 3.2 hereof, the greater of: (a) the highest annual bonus earned under the Company's annual incentive compensation program during the three (3)-year period ending on the date of the Chief Executive's Officer's termination of employment under conditions that result in the eligibility of such Chief Executive Officer for a Severance Benefit hereunder or (b) \$450,000.

- 1.6 **"Cause"** means the conviction of or a plea of nolo contendere to the charge of a felony (which, through lapse of time or otherwise, is not subject to appeal); a willful refusal without proper legal cause to perform, or gross negligence in performing, the Participant's duties and responsibilities; a material breach of fiduciary duty to the Company through the misappropriation of Company funds or property; or the unauthorized absence of the Participant from work (other than for sick or approved disability leave or leave under the Family Medical Leave Act) for a period of thirty (30) or more working days out of a consecutive forty-five (45)-working day period.
- 1.7 **"Change in Control"** means (i) there shall be consummated (A) any consolidation or merger of Company in which Company is not the continuing or surviving corporation or pursuant to which shares of Company's common stock would be converted into cash, securities or other property, other than a merger of Company where a majority of the board of directors of the surviving corporation are, and for a one-year period after the merger continue to be, persons who were directors of Company immediately prior to the merger or were elected as directors, or nominated for election as director, by a vote of at least two-thirds of the directors then still in office who were directors of Company immediately prior to the merger, or (B) any sale, lease, exchange or transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of Company, or (ii) the shareholders of Company shall approve any plan or proposal for the liquidation or dissolution of Company, or (iii) (A) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934), other than Company or a Subsidiary thereof or any employee benefit plan sponsored by Company or a Subsidiary thereof, shall become the beneficial owner (within the meaning of Rule 13c-3 under the Securities Exchange Act of 1934) of securities of Company representing thirty-five percent (35%) or more of the combined voting power of Company's then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, and (B) at any time during a period of one-year thereafter, individuals who immediately prior to the beginning of such period constituted the Board shall cease for any reason to constitute at least a majority thereof, unless election or the nomination by the Board for election by Company's shareholders of each new director during such period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.
- 1.8 **"Change in Control Benefit"** means the benefit payable under Section 3.1 hereof in the event of an involuntary termination of employment without Cause or a voluntary termination of employment for Good Reason following a Change in Control.

- 1.9 **“Chief Executive Officer”** means the Chief Executive Officer of the Company.
- 1.10 **“Code”** means the Internal Revenue Code of 1986, as amended from time to time.
- 1.11 **“Committee”** means the Compensation Committee of the Board.
- 1.12 **“Company”** means Tesoro Corporation, a Delaware corporation, or any successor thereto.
- 1.13 **“Compensation”** means a Participant’s Base Salary and Bonus.
- 1.14 **“Death/Disability Benefit”** means the benefit payable under Section 3.3 hereof in the event of the Chief Executive Officer’s termination of employment by reason of death or Total Disability.
- 1.15 **“Good Reason”** means the occurrence of any of the following:
- (a) without Participant’s express written consent, the assignment to Participant of any duties inconsistent with the employment of Participant immediately prior to the Change in Control, or a significant diminution of Participant’s positions, duties, responsibilities and status with the Company from those immediately prior to a Change in Control or a diminution in Participant’s titles or offices as in effect immediately prior to a Change in Control, or any removal of Participant from, or any failure to reelect Participant to, any of such positions;
 - (b) a material reduction by the Company in Participant’s Base Salary, as in effect immediately prior to a Change in Control;
 - (c) the failure by the Company to continue benefits, including but not limited to, thrift, pension, life insurance, and health plans, substantially equal in value, in the aggregate, to those in which Participant is participating or is eligible to participate at the time of the Change in Control except as otherwise required by the terms of such plans as in effect at the time of any Change in Control;
 - (d) the failure by the Company to continue in effect any incentive plan or arrangement in which Participant is participating at the time of a Change in Control (or to substitute and continue other plans or arrangements providing the Participant with substantially similar benefits), except as otherwise required by the terms of such plans as in effect at the time of any Change in Control;
 - (e) the occurrence of an event that meets the criteria set forth under the Company’s relocation policy, as in effect from time to time, with respect to which either (i) the Participant fails to provide express written consent to the relocation or (ii) the Company fails to provide the relocation benefit set forth in such policy; or
 - (f) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company;

- 1.16 **“Participant”** means an individual who, on the date of his or her termination of employment under the circumstances described in Section II hereof, is either: (i) an officer of the Company or a Subsidiary with the title of Senior Vice President or above whose compensation is approved by the Committee or (ii) an officer of the Company or a Subsidiary with the title of Vice President who is approved for participation by the Chief Executive Officer, and, in each case, who is not otherwise entitled to a change in control or severance benefit, as applicable, under an employment agreement, management stability agreement, or similar type of agreement.
- 1.17 **“Plan”** means the Tesoro Corporation Executive Severance and Change in Control Plan, effective January 12, 2011, as amended from time to time.
- 1.18 **“Regulations”** means the Treasury Regulations promulgated under the Code.
- 1.19 **“Separation from Service”** means a termination of employment of a Participant under the circumstances described in Section II hereof that will result in a reasonably anticipated permanent reduction in the level of bona fide services performed by the Participant for the Company and its Affiliates to 20% or less of the average level of bona fide services performed by the Participant for the Company and its Affiliates (whether as an employee or an independent contractor) in the immediately preceding thirty-six (36) months (or the full period of service to the Company and its Affiliates if the Participant has been providing services to the Company and its Affiliates for fewer than thirty-six (36) months). The determination of whether a Separation from Service has occurred shall be made by the Committee in accordance with the provisions of Section 409A of the Code and the Regulations.
- 1.20 **“Severance Benefit”** means the benefit payable under Section 3.2 hereof in the absence of a Change in Control but in the event of an involuntary termination of employment without Cause.
- 1.21 **“Subsidiary”** means any entity in which the Company owns or otherwise controls, directly or indirectly, stock or other ownership interests having the voting power to elect a majority of the board of directors, or other governing group having functions similar to a board of directors, as determined by the Committee.
- 1.22 **“Total Disability”** means the physical or mental incapacity of the Chief Executive Officer so as to render him incapable of performing his material, usual and customary duties, with or without reasonable accommodation as required by law, for six (6) consecutive months (even if such consecutive absence is interrupted by the Chief Executive Officer’s return to service for fewer than ten (10) consecutive business days if absent thereafter for the same illness or disability). Any termination on account of Total Disability shall be upon thirty (30) days written notice given at any time thereafter while the Chief Executive Officer remains Totally Disabled, provided that a termination for Total Disability hereunder shall not be effective if the Chief Executive Officer returns to the full performance of his duties within such thirty (30) day period.

The masculine gender, where appearing in the Plan, will be deemed to include the feminine gender, and the singular may include the plural, unless the context clearly indicates to the contrary.

SECTION II

ELIGIBILITY FOR BENEFITS

- 2.1 Eligibility for Change in Control Benefit. Each Participant is eligible to receive a Change in Control Benefit if, within the two-year period following a Change in Control, such Participant's employment with the Company or a Subsidiary is terminated by reason of: (i) involuntary termination other than for Cause or by reason of death, or (ii) voluntary termination by the Participant for Good Reason. The determination of whether a termination of employment shall be for Cause or Good Reason shall be made in the sole and absolute discretion of the Committee. Such benefit shall commence as provided in Section 4.1 hereof, but shall be contingent upon the Committee's prior receipt of a release executed by the Participant in the form determined by and in the manner prescribed by the Committee.
- 2.2 Eligibility for Severance Benefit.
- (a) Chief Executive Officer. Subject to paragraph (d) below, the Chief Executive Officer is eligible to receive a Severance Benefit if his employment with the Company or a Subsidiary is terminated in the absence of a Change in Control by reason of either: (i) involuntary termination other than for Cause or (ii) voluntary termination following the occurrence or failure of any of the following circumstances, without his express written consent: (A) a material adverse change in the governing body to which the Chief Executive Officer regularly reports, including a requirement that the Chief Executive Officer report to another corporate officer rather than to the Board; (B) a material adverse change in the Compensation plans, programs or arrangements in which the Chief Executive Officer is entitled to participate (the "Compensation Plans") other than a material adverse change in the Compensation Plans that adversely affects other similarly situated executives in a manner proportionate to the material adverse effect of such change on the Chief Executive Officer; (C) Chief Executive Officer's failure to be elected or reelected to the Board; or (D) the failure of any successor to the Company (whether direct or indirect and whether by merger, acquisition, consolidation or otherwise) to assume in a writing delivered to the Chief Executive Officer upon the successor becoming such, the obligations of the Company hereunder.
 - (b) Executive Vice-Presidents. Subject to paragraph (d) below, each Participant who is an Executive Vice-President of the Company is eligible to receive a Severance Benefit if such Participant's employment with the Company or a Subsidiary is terminated in the absence of a Change in Control by reason of either: (i) involuntary termination other than for Cause or by reason of death or (ii) voluntary termination following a material adverse change in the level of executive officer to whom the Executive Vice President regularly reports.

- (c) Senior Vice Presidents. Subject to paragraph (d) below, each Participant who is a Senior Vice President of the Company is eligible to receive a Severance Benefit if such Participant's employment with the Company or a Subsidiary is terminated in the absence of a Change in Control by reason of involuntary termination other than for Cause or by reason of death.
- (d) Committee Discretion and Executed Release. The determination of whether a termination of employment shall be for Cause or whether a material adverse change in the reporting relationship has occurred under Section 2.2 (a), (b) or (c) shall be made in the sole and absolute discretion of the Committee. Benefits payable hereunder shall commence as provided in Section 4.1 hereof, but shall be contingent upon the Committee's prior receipt of a release executed by the Participant in the form determined by and in the manner prescribed by the Committee.

2.3 Eligibility for Death/Disability Benefit. The Chief Executive Officer is eligible to receive a Death/Disability Benefit if his employment with the Company or a Subsidiary is terminated in the absence of a Change in Control by reason of his death or Total Disability. Such Death/Disability Benefit is mutually exclusive of any Severance Benefit or Change in Control Benefit hereunder.

SECTION III

AMOUNT AND FORM OF BENEFIT

3.1 Change in Control Benefit. The Change in Control Benefit to which an eligible Participant shall be entitled shall be as follows:

- (a) Chief Executive Officer. The Chief Executive Officer shall be entitled to a Change in Control Benefit, payable in cash, equal to three (3) times his Compensation. Furthermore, the Chief Executive Officer and his or her eligible dependents shall be entitled to participate in the Company's group medical plan (excluding dental and vision benefits) for the thirty (30)-month period commencing on the date of the Chief Executive Officer's Separation from Service.
- (b) Executive Vice-Presidents. Each Executive Vice-President shall be entitled to a Change in Control Benefit, payable in cash, equal to two and one-half (2.5) times his Compensation. Furthermore, the Executive Vice-President and his or her eligible dependents shall be entitled to participate in the Company's group medical plan (excluding dental and vision benefits) for the thirty (30)-month period commencing on the date of the Executive Vice-President's Separation from Service.
- (c) Senior Vice-Presidents. Each Senior Vice-President shall be entitled to a Change in Control Benefit, payable in cash, equal to two (2) times his Compensation. Furthermore, the Senior Vice-President and his or her eligible dependents shall be

entitled to participate in the Company's group medical plan (excluding dental and vision benefits) for the twenty-four (24)-month period commencing on the date of the Senior Vice-President's Separation from Service.

- (d) Vice-Presidents. Each Vice-President who is a Participant in this Plan shall be entitled to a Change in Control Benefit, payable in cash, equal to either one (1) times or one and one-half (1.5) times his Compensation, as determined by the Chief Executive Officer in his sole and absolute discretion. Furthermore, the Vice-President and his or her eligible dependents shall be entitled to participate in the Company's group medical plan (excluding dental and vision benefits) for a period of either twelve (12) or eighteen (18) months (as determined by the Chief Executive Officer in his sole and absolute discretion) commencing on the date of the Vice-President's Separation from Service.

3.2 Severance Benefit. The Severance Benefit to which an eligible Participant shall be entitled shall be as follows:

- (a) Chief Executive Officer. The Chief Executive Officer shall be entitled to a Severance Benefit, payable in cash, equal to two (2) times his Compensation, together with the benefits described in Section 3.2(d) (i) and (ii) hereof. Furthermore, except to the extent prohibited by law, and applicable only until May 1, 2015, the Chief Executive Officer shall be deemed vested under the Tesoro Corporation Amended and Restated Executive Security Plan ("ESP") as of the date of the Chief Executive Officer's eligibility for a Severance Benefit hereunder and the benefit to which the Chief Executive Officer is entitled under the ESP shall be calculated, to the extent applicable, by granting the Chief Executive Officer deemed years of age and service up to the earliest date on which the Chief Executive Officer would be eligible for an early retirement benefit, as determined under the Tesoro Corporation Retirement Plan.
- (b) Executive Vice-Presidents. Each Executive Vice-President shall be entitled to a Severance Benefit, payable in cash, equal to one and three-fourths (1.75) times his Compensation, together with the benefits described in Section 3.2(d) (i) and (ii) hereof.
- (c) Senior Vice-Presidents. Each Senior Vice-President shall be entitled to a Severance Benefit, payable in cash, equal to one and one-half (1.5) times his Compensation, together with the benefits described in Section 3.2(d) (i) and (ii) hereof.
- (d) Additional Benefits. The foregoing eligible Participants set forth in this Section 3.2 shall be entitled to the following benefits, as applicable, in addition to the benefits described in (a), (b) and (c) above:
 - (i) participation in the Company's medical plan (excluding dental and vision benefits) for a period of eighteen (18) months commencing on the date of the Participant's Separation from Service;

- (ii) receipt of reasonable outplacement services, at no cost to the Participant, for up to twelve (12) months, such twelve (12)-month period to commence on the date of the Participant's Separation from Service; and
- (iii) Chief Executive Officer and Chief Executive Officer's spouse and eligible dependents shall continue to be eligible to participate in, and receive group health coverage under, the Company's group health plans that provide group health coverage to active employees of the Company from time to time, but only to the extent such plans continue to be available to the Company's employees and only until the earliest to occur of (A) two and one-half (2½) years after the date of termination of the Chief Executive Officer's employment, (B) Chief Executive Officer's death (or in the case of coverage for a qualified beneficiary of Chief Executive Officer, the death of that qualified beneficiary), or (C) the date on which Chief Executive Officer (or in the case of coverage for a qualified beneficiary of Executive, the qualified beneficiary) becomes eligible for coverage under any other group health plan of another employer providing comparable coverage (the "Continuation Coverage Period"); provided that the Company shall pay for one hundred percent (100%) of the premiums for such group health coverage, and the premiums that otherwise would be charged to the Chief Executive Officer for such coverage but for this Section 3.2(d)(iii) shall be included as imputed income; and provided further that the group health plan coverage benefits provided by the Company under this Section 3.2(d)(iii) during any taxable year of the Chief Executive Officer will not affect such benefits provided by the Company in another taxable year during the period of continued coverage and the right to the benefits provided under this Section 3.2(d)(iii) is not subject to liquidation or exchange for another benefit.

3.3 Death/Disability Benefit. The Chief Executive Officer or, in the event of the Chief Executive Officer's death, the estate of the Chief Executive Officer shall be entitled to a Death/Disability Benefit, payable in cash, equal to one (1) times his Base Salary. In the event of the Chief Executive Officer's termination of employment on account of Total Disability, this benefit shall be reduced by any payments to the Chief Executive Officer under any long-term disability plan or arrangement of the Company.

SECTION IV **PAYMENT OF BENEFITS**

4.1 Benefits payable in accordance with Section III as cash payments will be paid in a single lump sum payment on the first day of the seventh (7th) calendar month beginning after the Participant's Separation from Service. If a Participant who is entitled to continued coverage under the Company's group medical plan elects to continue such participation, the Company shall pay the applicable premium for such coverage (which amount shall be the employer-subsidized portion of the premium that applies to active employees of the

Company) in accordance with the Company's standard payroll practices for the period of coverage that applies under Section III hereof. The continued medical plan coverage described herein and the payment of the applicable premium in connection therewith may not affect the benefit to be provided in any other taxable year and may not be liquidated or exchanged for any other benefit.

- 4.2 The Company will be liable for all benefits due the Participants under the Plan.
- 4.3 The Plan is a general corporate commitment and each Participant must rely upon the general credit of the Company for the fulfillment of its obligations under the Plan. Under all circumstances the rights of Participants to any asset held by the Company shall be no greater than the rights expressed in this Plan. Nothing contained in this Plan shall constitute a guarantee by the Company that the assets of the Company will be sufficient to pay any benefits under the Plan or would place the Participant in a secured position ahead of general creditors and judgment creditors of the Company. Though the Company may establish or become a signatory to a rabbi trust to accumulate assets to help fulfill its obligations, the Plan and any trust created, shall not create any lien, claim, encumbrance, right, title or other interest of any kind in any Participant in any asset held by the Company, contributed to any trust created, or otherwise be designated to be used for payment of any of its obligations created in this agreement. No specific assets of the Company have been or will be set aside, or will be transferred to a trust or will be pledged for the performance of the Company's obligations under the Plan which would remove those assets from being subject to the general creditors and judgment creditors of the Company.
- 4.4 It is intended that this Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.
- 4.5 Notwithstanding any provision of this Section IV to the contrary, the benefits payable hereunder may, to the extent expressly provided in this Section 4.5, be paid prior to or later than the date on which they would otherwise be paid to the Participant.
- (a) Distribution in the Event of Income Inclusion Under Code Section 409A. If any portion of a Participant's benefit hereunder is required to be included in income by the Participant prior to receipt due to a failure of this Plan or any Aggregated Plan to comply with the requirements of Section 409A of the Code or the Regulations, the Committee may determine that such Participant shall receive a distribution from the Plan in an amount equal to the portion of his or her benefit required to be included in income as a result of the failure of the Plan or any Aggregated Plan to comply with the requirements of Section 409A of the Code or the Regulations.
- (b) Distribution Necessary to Satisfy Applicable Tax Withholding. If the Company is required to withhold amounts to pay the Participant's portion of the Federal Insurance Contributions Act (FICA) tax imposed under Code Sections 3101, 3121(a) or 3121(v)(2) with respect to amounts that are or will be paid to the Participant under the Plan before they otherwise would be paid, the Committee may determine that such Participant shall receive a distribution from the Plan in

an amount equal to the lesser of: (i) the amount of the Participant's benefit hereunder or (ii) the aggregate of the FICA taxes imposed and the income tax withholding related to such amount.

- (c) Delay for Payments in Violation of Federal Securities Laws or Other Applicable Law. In the event the Company reasonably anticipates that the payment of benefits as specified hereunder would violate Federal securities laws or other applicable law, the Committee may delay the payment of such benefit hereunder until the earliest date at which the Company reasonably anticipates that the making of such payment would not cause such violation.
- (d) Delay for Insolvency or Compelling Business Reasons. In the event the Company determines that the making of any payment of benefits on the date specified hereunder would jeopardize the ability of the Company to continue as a going concern, the Committee may delay the payment of such benefits until the first calendar year in which the Company notifies the Committee that the payment of benefits would not have such effect.
- (e) Administrative Delay in Payment. The payment of benefits hereunder shall begin at the date specified in accordance with the provisions of the foregoing paragraphs of this Section IV; provided that, in the case of administrative necessity, the payment of such benefits may be delayed up to the later of the last day of the calendar year in which payment would otherwise be made or the 15th day of the third calendar month following the date on which payment would otherwise be made. Further, if, as a result of events beyond the control of the Participant, it is not administratively practicable for the Committee to calculate the amount of benefits due to the Participant as of the date on which payment would otherwise be made, the payment may be delayed until the first calendar year in which calculation of the amount is administratively practicable.

SECTION V

CLAIMS PROCEDURES

- 5.1 Claims for Benefits. The Committee shall determine the rights of any Participant to any benefits hereunder. Any Participant who believes that he has not received the benefits to which he is entitled under the Plan may file a claim in writing with the Committee. The Committee shall, no later than 90 days after the receipt of a claim (plus an additional period of 90 days if required for processing, provided that notice of the extension of time is given to the claimant with the first 90-day period), either allow or deny the claim in writing.

A denial of a claim by the Committee, wholly or partially, shall be written in a manner intended to be understood by the claimant and shall include:

- (a) the specific reasons for the denial;
- (b) specific reference to pertinent Plan provisions on which the denial is based;

- (c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (d) an explanation of the claim review procedure and the time limits applicable to such procedures, including a statement of the claimant's right, if applicable, to bring a civil action under Section 502(a) of ERISA.

5.2 Appeal Provisions. A claimant whose claim is denied (or his duly authorized representative) may within 60 days after receipt of denial of a claim file with the Committee a written request for a review of such claim. If the claimant does not file a request for review of his claim within such 60-day period, the claimant shall be deemed to have acquiesced in the original decision of the Committee on his claim, the decision shall become final and the claimant will not be entitled to bring a civil action under Section 502(a) of ERISA. If such an appeal is so filed within such 60-day period the Committee (or its delegate) shall conduct a full and fair review of such claim. During such review, the claimant (or the claimant's authorized representative) shall be given the opportunity to review all documents that are pertinent to his claim and to submit issues and comments in writing.

The Committee shall mail or deliver to the claimant a written decision on the matter based on the facts and the pertinent provisions of the Plan within 60 days after the receipt of the request for review (unless special circumstances require an extension of up to 60 additional days, in which case written notice of such extension shall be given to the claimant prior to the commencement of such extension). Such decision shall be written in a manner intended to be understood by the claimant, shall state the specific reasons for the decision and the specific Plan provisions on which the decision was based and shall, to the extent permitted by law, be final and binding on all interested persons.

SECTION VI

MISCELLANEOUS

- 6.1 The Board, or its delegate, may, in its sole discretion, terminate, suspend or amend this Plan at any time, in whole or in part. However, the termination, amendment or suspension of this Plan will not operate to decrease the benefit to which a Participant has become entitled but which has not yet been paid. Notwithstanding the foregoing, the Plan shall automatically terminate, without further action of the Company, upon Insolvency of the Company. For this purpose, Insolvency shall mean the inability of the Company to continue as a going concern.
- 6.2 Notwithstanding any provision of the Plan to the contrary, the Committee may at any time (without the consent of any Participant) modify, amend or terminate any or all of the provisions of this Plan to the extent necessary to conform the provisions of the Plan with Section 409A of the Code, regardless of whether such modification, amendment or termination of this Plan shall adversely affect the rights of a Participant under the Plan.

- 6.3 Nothing contained herein will confer upon any Participant the right to be retained in the service of the Company, nor will it interfere with the right of the Company to discharge or otherwise deal with a Participant without regard to the existence of this Plan.
- 6.4 No benefit under this Plan shall be assignable or subject to any manner of alienation, sale, transfer, claims of creditors, pledge, attachment or encumbrances of any kind.
- 6.5 The Committee may adopt rules and regulations to assist it in the administration of the Plan and may delegate such of its duties hereunder as it may deem advisable.
- 6.6 This Plan is established under and will be construed according to the laws of the State of Texas, except to the extent preempted by federal law.
- 6.7 This amendment and restatement is signed this 1st day of May, 2013, to be effective as of the date of execution.

TESORO CORPORATION

By: /s/ CRAIG M. LATORRE
Name: Craig M. LaTorre
Title: Vice President, Human Resources and Communications

WAIVER AND RELEASE OF THE AMENDED & RESTATED
MANAGEMENT STABILITY AGREEMENT

Tesoro Corporation (the "Company") and Don J. Sorensen (collectively, the "Parties") entered into an Amended & Restated Management Stability Agreement executed on December 31, 2008 and attached hereto as "Attachment A" (the "Agreement"). In consideration for the Company's agreement to allow Sorensen to participate in its Executive Severance and CIC Plan, Sorensen hereby waives and releases any and all rights and benefits he may have had under the Agreement (including, but not limited to any severance payments, benefits, and service credit to him). Accordingly, each Party agrees that the Agreement is hereby terminated, and that each Party waives and releases any rights or obligations it may have had under the Agreement.

This Waiver and Release constitutes the entire agreement between the Parties and cancels and supersedes all other agreements between the Parties which may have related to the subject matter contained in the Agreement, including the Agreement itself.

Employee: Don J. Sorensen

Date

Company: Tesoro Corporation

By Gregory J. Goff

Chairman, President & Chief Executive Officer

Date

**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 4, 2016

/s/ GREGORY J. GOFF

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

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

I, Steven M. Sterin, 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 4, 2016

/s/ STEVEN M. STERIN

Steven M. Sterin
Chief Financial Officer of Tesoro Logistics GP, LLC
(the general partner of Tesoro Logistics LP)

**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, 2016 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 4, 2016

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.

**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, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven M. Sterin, 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/ STEVEN M. STERIN

Steven M. Sterin

Chief Financial Officer of Tesoro Logistics GP, LLC
(the general partner of Tesoro Logistics LP)

August 4, 2016

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.

