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

# FORM 10-K

**(Mark One)**

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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** | | **27-4151603** |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | | (I.R.S. Employer Identification No.) |

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

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

**Securities registered pursuant to 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Units Representing Limited Partnership Interests | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☑ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |

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

At June 30, 2016, the aggregate market value of common limited partner units held by non-affiliates of the registrant was approximately $3.4 billion based upon the closing price of its common units on the New York Stock Exchange Composite tape. The registrant had 102,996,246 common units and 2,100,900 general partner units outstanding at February 15, 2017.

**DOCUMENTS INCORPORATED BY REFERENCE: None**

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## TESORO LOGISTICS LP
ANNUAL REPORT ON FORM 10-K



**This Annual Report on Form 10-K (including documents incorporated by reference herein) contains statements with respect to our expectations or beliefs as to future events. These types of statements are "forward-looking" and subject to uncertainties. See "Important Information Regarding Forward-Looking Statements."**

## IMPORTANT INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (including information incorporated by reference) contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact, including without limitation statements regarding expectations regarding revenues, cash flows, capital expenditures, and other financial items, our business strategy, goals and expectations concerning our market position, future operations and profitability, are forward-looking statements. Forward-looking statements may be identified by use of the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will," "would" and similar terms and phrases. Although we believe our assumptions concerning future events are reasonable, a number of risks, uncertainties and other factors could cause actual results and trends to differ materially from those projected, including, but not limited to:

- changes in global economic conditions 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 change in the crude oil and natural gas produced in the Bakken Shale/Williston Basin area of North Dakota and Montana or 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 ("NGLs") 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 ability to perform under the terms of our gathering agreements as they are the largest customers in our 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 obligations under our commercial agreements and our secondment agreement;
- a material change 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 or activist 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 our customers 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;
- delays in obtaining necessary approvals and permits;
- 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;
- political developments; and
- the factors described in greater detail under "Competition" and "Risk Factors" in Items 1 and 1A herein, and our other filings with the SEC.

All forward-looking statements included in this report are based on information available to us on the date of this report. We undertake no obligation to revise or update any forward-looking statements as a result of new information, future events or otherwise.

## GLOSSARY OF TERMS

*Bhp* - Brake horsepower.

*Bpd* - Barrel per day.

*BTU* - British thermal unit—a measure of the amount of energy required to raise the temperature of a one-pound mass of water one degree Fahrenheit at sea level.

*Common Carrier Pipeline* - A pipeline engaged in the transportation of crude oil, refined products or other hydrocarbon-based products as a common carrier for hire.

*End User* - The ultimate user and consumer of transported energy products.

*FERC* - Federal Energy Regulatory Commission.

*Fractionation* - The process of separating natural gas liquids into its component parts by heating the natural gas liquid stream and boiling off the various fractions in sequence from the lighter to the heavier hydrocarbon.

*Gas Processing* - A complex industrial process designed to remove the heavier and more valuable natural gas liquids components from raw natural gas allowing the residue gas remaining after extraction to meet the quality specifications for long-haul pipeline transportation or commercial use.

*Life-Of-Reserves Contract* - A contract that remains in effect as long as commercial production of hydrocarbons is ongoing.

*Mbpd* - Thousand barrels per day.

*MMBtu* - Million British thermal units.

*MMBtu/d* - Million British thermal units per day.

*MMcf* - Million cubic feet. Cubic foot or feet is a common unit of gas measurement. One standard cubic foot equals the volume of gas in one cubic foot measured at standard temperature (60 degrees Fahrenheit) and standard pressure (14.73 pounds standard per square inch).

*MMcf/d* - Million cubic feet per day.

*NGLs* - Natural gas liquids.

*Refined Products* - Hydrocarbon compounds, such as gasoline, diesel fuel, jet fuel and residual fuel that are produced by a refinery.

*Throughput* - The volume of hydrocarbon-based products transported or passing through a pipeline, plant, terminal or other facility during a particular period.

*Unit Train* - A train consisting of approximately one hundred rail cars containing a single material (such as crude oil) that is transported by the railroad as a single unit from its origin point to the destination, enabling decreased transportation costs and faster deliveries.

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.

# PART I

## ITEM 1. BUSINESS

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.

We completed our initial public offering (the "Initial Offering") in April 2011. We have since acquired additional assets from Tesoro, and those assets, liabilities and results of operations are collectively referred to as the "Predecessors." Our financial information for all periods, except the consolidated balance sheet as of December 31, 2016, includes the historical results of our Predecessors and the results of TLLP. The financial statements of our Predecessors have been prepared from the separate records maintained by Tesoro and may not necessarily be indicative of the conditions that would have existed or the results of operations if our Predecessors had been operated as an unaffiliated entity. Most notably, this applies to the revenue associated with the terms of the commercial agreements as our Predecessors generally did not record revenue for transactions with Tesoro in the Terminalling and Transportation segment.

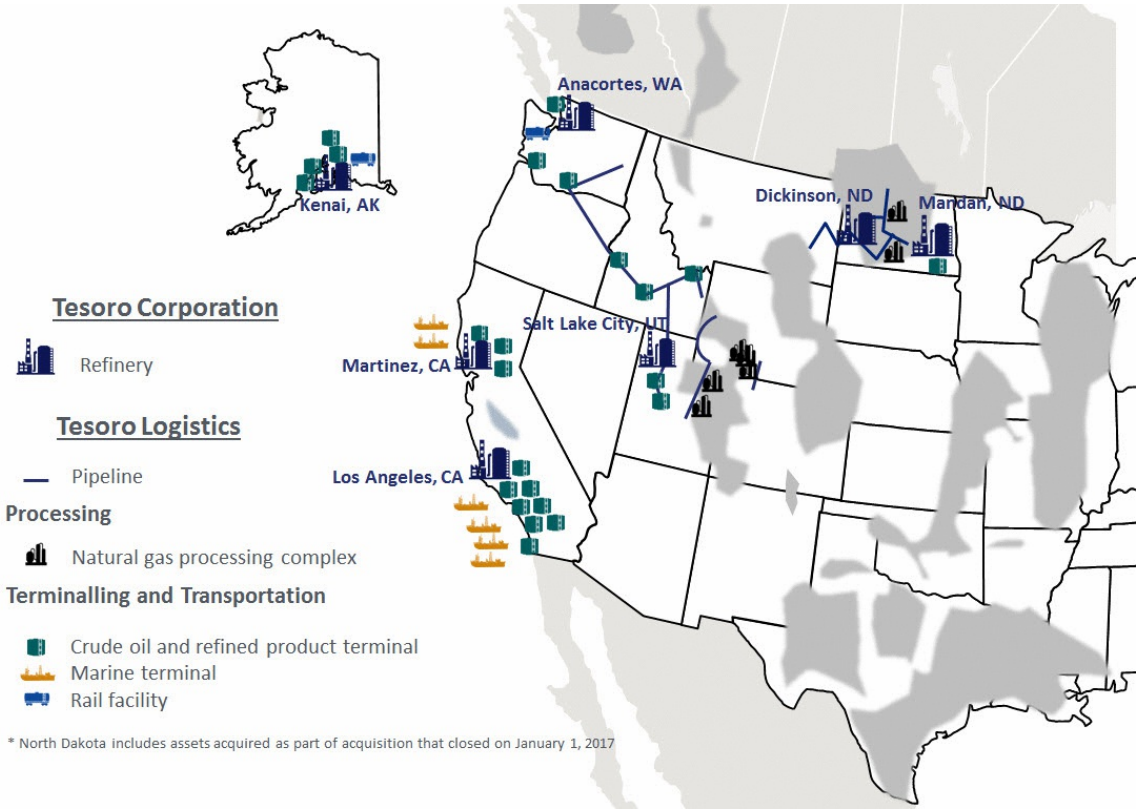
We are a full-service logistics company operating primarily in the western and mid-continent regions of the United States. We own and operate networks of crude oil, refined products and natural gas pipelines, terminals with dedicated and non-dedicated storage capacity for crude oil and refined products, rail facilities with loading and off-loading capabilities, marine terminals, a trucking fleet, natural gas processing and fractionation complexes. Our assets are organized in three segments: Gathering, Processing and Terminalling and Transportation. Segment disclosures are discussed in Note 13 to our consolidated financial statements in Item 8. Our business is affected by seasonality due to weather conditions and access restrictions, as well as supply and demand.

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 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 as part of our normal operations. However, we may be subject to nominal commodity risk exposure due to pipeline loss allowance provisions in many of our pipeline gathering and transportation contracts and a nominal amount of condensate retained as part of our natural gas gathering services. In the event actual measured pipeline losses are less than the loss allowance we are able to sell the natural gas and crude oil at market price adjusted for premiums; correspondingly, when actual losses exceed loss allowances we purchase natural gas or crude oil at market prices. The natural gas imbalance exposes us to some fluctuations in natural gas prices. At December 31, 2016, the estimated value of the imbalance was less than $1 million. 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.

We are not a taxable entity for federal and state income tax purposes. Instead, each partner is required to take into account its share of our income, gain, loss and deduction in computing its federal and state income tax liabilities, regardless of whether we make cash distributions to the partner. The taxable income reportable to each partner takes into account differences between the tax bases and financial reporting bases of assets and liabilities, the acquisition price of their units and the taxable income allocation requirements under the partnership agreement.

**NORTH DAKOTA GATHERING AND PROCESSING ASSETS** On November 21, 2016, we agreed to acquire crude oil, natural gas and produced water gathering systems and two natural gas processing facilities from Whiting Oil and Gas Corporation, GBK Investments, LLC and WBI Energy Midstream, LLC ("North Dakota Gathering and Processing Assets") for total consideration of approximately $700 million. The North Dakota Gathering and Processing Assets include over 650 miles of crude oil, natural gas, and produced water gathering pipelines, 170 MMcf per day of natural gas processing capacity and 18.7 Mbpd of fractionation capacity in the Sanish and Pronghorn fields of the Williston Basin in North Dakota. The acquisition closed on January 1, 2017. With this acquisition, we expanded the assets in our Gathering and Processing segments located in the Williston Basin area of North Dakota to further grow our integrated, full-service logistics capabilities in support of third-party demand for crude oil, natural gas and water gathering services as well as natural gas processing services. In addition, this extends our capacity and capabilities by adding new origin and destination points for our common carrier pipelines in North Dakota and extends our crude oil, natural gas and water gathering and associated gas processing footprint to enhance and improve overall basin logistics efficiencies.

The following provides an overview of our assets and operations in relation to Tesoro's refineries:

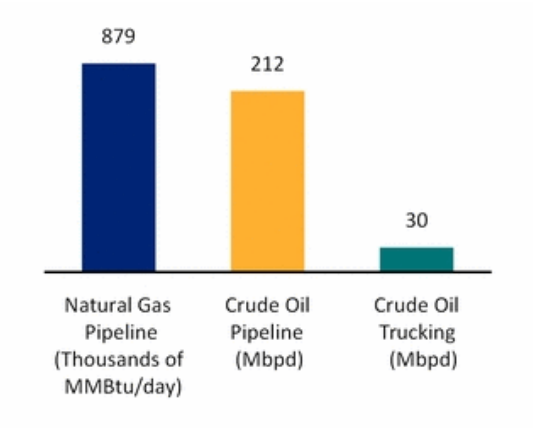



## GATHERING

Our gathering systems include crude oil, natural gas and water pipeline gathering systems in the Bakken Shale/Williston Basin area of North Dakota and Montana (the "Bakken Region") and the Green River Basin, Vermillion Basin and Uinta Basin in the states of Utah, Colorado and Wyoming, including:

- a common carrier crude oil gathering and transportation system in North Dakota and Montana (the "High Plains System");
- North Dakota Gathering Systems, which consists of a crude oil and natural gas gathering system located in and around the Williston Basin;
- Uinta Basin Gathering System, which consists of natural gas gathering systems and compression assets located in northeastern Utah;
- Green River System, consisting of an integrated natural gas gathering and transportation system;
- Vermillion Gathering System, which consists of natural gas gathering and compression assets located in Southern Wyoming, northwest Colorado and northeast Utah; and
- certain equity method investments that contribute to our gathering systems including investments in:
  - Rendezvous Gas Services, L.L.C. ("RGS"), which operates the infrastructure that transports gas from certain fields to several re-delivery points, including natural gas processing facilities that are owned by TLLP or a third party;
  - Three Rivers Gathering, LLC, which transports natural gas to our natural gas processing facilities in the Uinta Basin; and
  - Uintah Basin Field Services, L.L.C., which operates gathering pipeline and gas compression assets located in the southeastern Uinta Basin.

**GATHERING - VOLUMES TRANSPORTED IN 2016**




**HIGH PLAINS SYSTEM.** We own and operate a common carrier crude oil gathering and transportation system consisting of common carrier pipelines in North Dakota and Montana (the "High Plains Pipeline"), which gathers and transports crude oil into major regional takeaway pipelines and refining centers including Tesoro's North Dakota refinery in Mandan. The Partnership transports crude oil processed at Tesoro's Mandan refinery via the High Plains System.

As part of our High Plains System, we own storage facilities with tanks located in strategic areas of the Bakken Region basins, which provide our customers access to and from multiple pipelines and rail loading facilities in the area. The current storage capacity is over 1 million barrels.

In addition, we own and operate a truck-based crude oil gathering operation. This operation uses a combination of proprietary and third-party trucks, all of which we dispatch and schedule. These trucks gather and transport crude oil from well sites or nearby collection points in the Bakken Region and deliver it to our High Plains Pipeline and third-party destinations. We charge per-barrel tariffs and service fees for receiving and transporting crude oil, for dispatching and scheduling proprietary and third-party trucks and for use of our field unloading tanks.

**NORTH DAKOTA GATHERING SYSTEMS.** The North Dakota Gathering Systems are crude oil, natural gas and produced water gathering systems located in and around the Williston Basin in McLean County, North Dakota, including the North Dakota Gathering and Processing Assets. These systems are primarily supported by long-term, fee-based, crude oil and natural gas gathering agreements with minimum volume commitments and backed by acreage dedications from producers. Included are the recently acquired North Dakota Gathering and Processing Assets.

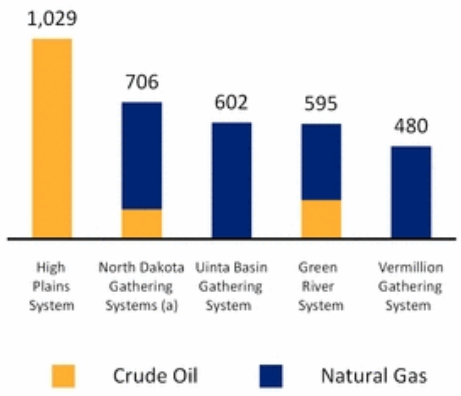
**UINTA BASIN GATHERING SYSTEM.** The Uinta Basin Gathering System consists of natural gas gathering systems and compression assets located in northeast Utah, which include low-pressure natural gas gathering pipeline and compression. We refer to these individual gas gathering systems collectively as the Uinta Basin Gathering System. The gathering system is primarily supported by acreage dedications and long-term, fee-based gathering agreements that contain annual inflation adjustment mechanisms and minimum volume commitments.

**GREEN RIVER SYSTEM.** The Green River System, located in western Wyoming, consists of three integrated assets: the Green River Gathering Assets, the assets owned by Rendezvous Pipeline Company, LLC ("Rendezvous Pipeline") and assets owned by RGS. In addition to gathering natural gas, the system also gathers crude oil production, transports the crude oil to an interstate pipeline interconnect, and gathers and handles produced and flowback water associated with well completion and production activities.

- The Green River Gathering Assets are primarily supported by Life-of-Reserves Contracts and long-term, fee-based gathering agreements with minimum volume commitments.
- Rendezvous Pipeline provides gas transportation services from the Blacks Fork processing complex in southwest Wyoming to an interconnect with the Kern River Pipeline. The capacity on the Rendezvous Pipeline system is contracted under long-term take or pay transportation contracts.
- RGS, which operates the infrastructure that transports gas from certain fields to several re-delivery points, including natural gas processing facilities that are owned by TLLP or a third party.

**VERMILLION GATHERING SYSTEM.** The Vermillion Gathering System consists of gas gathering and compression assets located in southern Wyoming, northwest Colorado and northeast Utah. The Vermillion Gathering System is primarily supported by Life-of-Reserves Contracts and long-term, fee-based gas gathering agreements with minimum volume commitments.

**GATHERING ASSETS PIPELINE MILES BY SYSTEM**




(a) Includes the gathering pipelines associated with the North Dakota Gathering and Processing Assets acquisition.

Our natural gas operations are affected by seasonal weather conditions and certain access restrictions imposed by the Bureau of Land Management ("BLM") on federal lands to protect migratory and breeding patterns of native species. During the winter months, our customers typically reduce drilling and completion activities due to adverse weather conditions. Also, access restrictions imposed by the BLM reduce our ability to complete expansion projects and connect to newly completed wells. We mitigate these seasonal risks in affected areas through prudent planning and coordination with our customers to ensure expansion projects are completed prior to these periods. Condensate sales, however, tend to increase in the first quarter of each year, as the colder ground causes more condensates to fall out of the gas stream in our gathering system. However, this impact is minimal and we expect such seasonality to diminish as we continue expanding our existing assets or acquire additional assets outside of the affected areas.

## PROCESSING

Our Processing segment consists of the Vermillion processing complex ("Vermillion Complex"), the Uinta Basin processing complex ("Uinta Basin Complex"), the Blacks Fork processing complex ("Blacks Fork Complex"), the Emigrant Trail processing complex ("Emigrant Trail Complex") as well as the Robinson Lake processing complex ("Robinson Lake Complex") and the Belfield processing complex ("Belfield Complex") that were acquired with the North Dakota Gathering and Processing Assets. We process gas for certain producers under keep-whole processing agreements. Approximately 45-50% of our plant production is currently supported by long-term, fee-based processing agreements with minimum volume commitments. The graph below shows the throughput capacities of our processing and fractionation facilities.

**VERMILLION COMPLEX.** The Vermillion Complex, located in Sweetwater County, Wyoming, consists of two processing trains. A portion of the natural gas volumes we gather at the Vermillion Complex is available to us pursuant to natural gas gathering agreements with several producer customers. The plant receives the majority of its gas from the Vermillion sub-basin in southern Wyoming and northwest Colorado.

**UINTA BASIN COMPLEX.** The Uinta Basin Complex, located in Uintah County, Utah, consists of five separate processing trains with raw gas inlet processing capacity. The complex receives the majority of its gas from various natural gas fields located in the Uinta Basin.

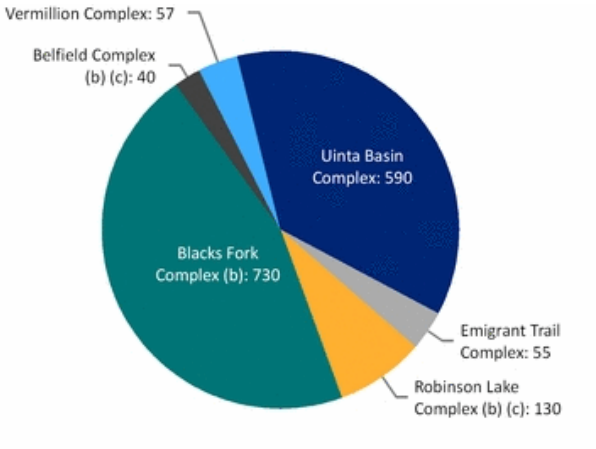
**BLACKS FORK COMPLEX.** The Blacks Fork Complex, located in Sweetwater and Uinta Counties, Wyoming, consists of three separate gas processing trains and a NGLs fractionation facility. The complex receives the majority of its gas from various gas fields located in the Green River Basin of western Wyoming.

**EMIGRANT TRAIL COMPLEX.** The Emigrant Trail Complex, located in Uinta County, Wyoming, consists of one cryogenic gas processing train. The complex receives the majority of its gas from various gas fields located in the Green River Basin of western Wyoming.

**ROBINSON LAKE COMPLEX.** The Robinson Lake Complex is located in Montrail County, North Dakota, and consists of compression units, propane refrigeration plants and a fractionation plant. The complex receives the majority of its gas from various gas fields located in the Williston Basin of North Dakota.

**BELFIELD COMPLEX.** The Belfield Complex, located in Billings, Dun and Stark Counties, North Dakota, consists of compression units, propane refrigeration plants and a fractionation plant. The complex receives the majority of its gas from various gas fields located in the Williston Basin of North Dakota.

**THROUGHPUT CAPACITY BY PROCESSING COMPLEX (a)**




(a) Capacity is measured in MMcf/d.
(b) We have fractionation throughput capacity at our Blacks Fork complex, Robinson Lake complex and our Belfield complex of 15.0 Mbpd, 11.5 Mbpd and 7.2 Mbpd, respectively.
(c) Included with the North Dakota Gathering and Processing Assets acquisition.

## TERMINALLING AND TRANSPORTATION

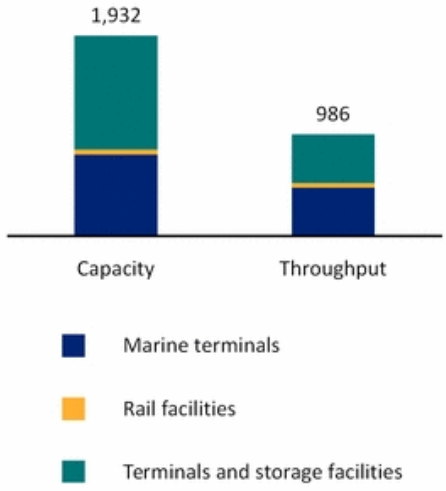
We generate terminalling and transportation revenues by charging our customers fees for:

- delivering crude oil, refined products and intermediate feedstocks from vessels to refineries and terminals;
- loading and unloading crude oil transported by unit train to Tesoro's Anacortes refinery;
- marine loading and unloading;
- providing storage services;
- transferring refined products from terminals to trucks, barges and pipelines;
- transporting refined products;
- providing ancillary services, ethanol blending and additive injection, and for barge loading or unloading fees; and
- handling petroleum coke for Tesoro's Los Angeles refinery.

Our refined products terminals are supplied by our pipelines, Tesoro-owned and third-party pipelines, trucks, and barges. Our marine terminals load and unload vessels, our rail car loading and unloading facilities receive crude oil transported on unit trains leased by Tesoro, and our petroleum coke facility handles and stores petroleum coke.

### TERMINALLING

The following chart shows the average daily terminalling or loading capacity and total average terminalling throughput for our crude oil and refined products terminals (in Mbpd) for the year ended December 31, 2016.



The following table shows the locations and types of products handled by our crude oil and refined products terminals and storage facilities including their storage capacities (in shell barrels) as of December 31, 2016.

| Terminal Location | Products Handled | Total Approximate Storage Capacity (a) | Dedicated Storage (b) |
|---|---|---|---|
| California Marine Terminals | Crude Oil; Intermediate Feedstocks; Gasoline; Diesel; Jet Fuel | 3,349,000 | 2,231,000 |
| California Terminals and Storage Facilities | Crude Oil; Diesel; Intermediate Feedstocks; Gasoline; Gasoline Blendstocks; Jet Fuel; Light Ends; NGLs | 20,159,000 | 17,154,486 |
| Idaho | Gasoline; Diesel; Jet Fuel | 878,000 | 53,826 |
| Utah | Gasoline; Diesel; Jet Fuel; Crude Oil Storage; Truck Unloading | 895,000 | 878,000 |
| Washington | Gasoline; Diesel; NGLs | 2,374,000 | 1,602,977 |
| Alaska | Gasoline; Diesel; Jet Fuel; Aviation Gasoline | 5,563,000 | 4,156,424 |
| **Total Crude Oil and Refined Products** | | **33,218,000** | **26,076,713** |

(a) Includes storage capacity for refined products and ethanol only; excludes additive storage for gasoline and diesel.
(b) Represents dedicated portion of total storage capacity for which we charge a per barrel monthly fee based on storage capacity.


**CALIFORNIA MARINE TERMINALS.** The California marine terminals support Tesoro's Los Angeles refinery, Tesoro's Martinez refinery and third parties. The Los Angeles marine terminals consist of three marine terminals and a marine storage facility. One of the marine terminals, Berth 121, is capable of handling VLCC class ships. Another marine terminal is Terminal 2, which is comprised of a berth dock and is adjacent to our Terminal 3 storage facility. The third is a marine terminal currently subleased from Tesoro pursuant to a master lease between Tesoro and the City of Long Beach, which expires in 2032. Tesoro currently leases a portion of Berth 121 from the City of Long Beach under a lease that expires in 2023 and a portion of Terminal 2, which is currently under a month to month lease while negotiations are underway to provide a long term lease. Until the effectiveness of the subleases between Tesoro and us for these properties, we are operating the assets pursuant to the Berth 121 Operating Agreement and the Terminals 2 and 3 Operating Agreement.

The Martinez Crude Oil Marine Terminal is located near Tesoro's Martinez refinery and consists of a dock, storage tanks and related pipelines that receive crude oil from vessels for delivery to Tesoro's refinery and a third-party terminal. The dock and related leasehold improvements are situated on an offshore parcel of land that is currently being leased by Tesoro from the California State Lands Commission under a term lease. The lease will be legally transferred to us upon renewal and approval from the California State Lands Commission. We are currently operating these assets under the terms of the Amorco Marine Terminal Use and Throughput Agreement entered into in April 2012.

On November 21, 2016, we purchased the assets located at the Avon marine terminal facility (the "Avon Marine Terminal Assets"), consisting of a berth dock that serves as the main shipping and receiving point for Tesoro's Martinez refinery for the transfer of waterborne non-crude feedstocks, is the principal outbound marine delivery point for refined products and is directly connected to the refined products tankage located at the refinery. We are currently operating these assets under the terms of the Avon Marine Terminal Operating Agreement.

In connection with the Avon Marine Terminal Assets, Tesoro Logistics Operations LLC, our subsidiary ("TLO"), entered into an operating agreement that is intended to be treated as a contribution of the Avon Marine Terminal Assets (including all economic benefits and burdens relating to those assets) as of the closing date on November 21, 2016.

**CALIFORNIA TERMINALS AND STORAGE FACILITIES.** We own and operate terminals and storage facilities in California. In addition, we operate a refined products terminal in Stockton, which we lease from the Port of Stockton under a five-year lease expiring in 2019 that can be extended for up to two additional five-year terms. We own and operate a terminal located at Tesoro's Martinez refinery that includes a refined products truck rack, a NGLs truck facility and a NGLs rail loading and unloading facility. The Martinez terminal receives refined products via pipelines from the Martinez refinery, some of which we blend with renewable fuels before delivery. In November 2015, we purchased crude oil and refined product storage and pipeline assets in Los Angeles, California from Tesoro, which included crude oil, feedstock, and refined product storage tanks with combined capacity of 6.6 million barrels and a

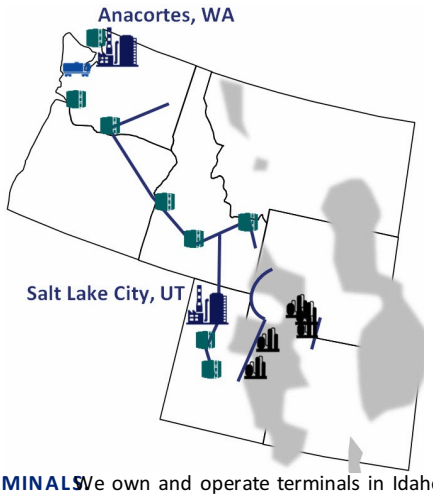
50% fee interest in a pipeline that transports jet fuel from Tesoro's Los Angeles refinery to the Los Angeles International Airport.

On November 21, 2016, we purchased certain terminalling and storage assets located in Martinez, California (the "Northern California Terminalling and Storage Assets") from Tesoro consisting of:

- tankage with shell capacity of approximately 5.8 million barrels of crude oil, feedstock, and refined product storage located at Tesoro's Martinez refinery, together with all related equipment and ancillary facilities used for the operation thereof (the "Tankage");
- the Avon Marine Terminal Assets; and
- the pipelines, causeway and ancillary equipment that connect the Tankage to the Avon Marine Terminal, as well as all associated easements, permits and licenses.

In connection with the Northern California Terminalling and Storage Assets purchase, we entered into certain commercial agreements with Tesoro and its subsidiary Tesoro Refining and Marketing Company ("TRMC"), our general partner and TLO, as applicable.

**CARSON CALIFORNIA PETROLEUM COKE HANDLING AND STORAGE FACILITY.** We own and operate a coke handling and storage facility adjacent to Tesoro's Los Angeles refinery. Tesoro has committed to throughput 2,600 metric tons per day of petroleum coke at this facility. We lease the facility to Tesoro under an agreement that expires in 2024 and can be renewed by Tesoro for six renewal terms of ten years each.




**IDAHO TERMINALS.** We own and operate terminals in Idaho, including terminals located in Boise, Pocatello and Burley. Refined products received at the Idaho terminals are distributed by Tesoro and third parties through the truck loading racks.

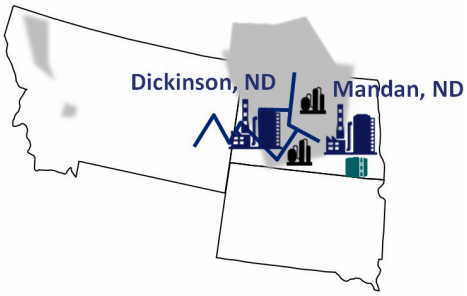
**UTAH TERMINALS.** We own and operate a refined products terminal adjacent to Tesoro's Utah refinery. The Salt Lake City terminal has the ability to receive refined products directly from the refinery via pipeline. Refined products received and ethanol blended into gasoline at this terminal are sold locally and regionally by Tesoro through our truck loading rack. We own and operate a crude oil truck terminal that allows us to receive black wax crude oil for Tesoro's use in its Utah refinery. We also own and operate a crude oil and refined products storage facility in Salt Lake City with 878,000 barrels of storage capacity. The storage tanks are connected to Tesoro's Salt Lake City refinery through our four interconnecting pipelines, but are not directly connected to our Salt Lake City terminal. The storage facility supplies crude oil to Tesoro's Utah refinery and receives refined and intermediate products from the refinery.

**WASHINGTON TERMINALS AND STORAGE FACILITIES.** The Washington terminals consist of three terminals located in Vancouver, Pasco and Anacortes. The Vancouver terminal is leased from the Port of Vancouver under a 10-year lease expiring in 2026, with one 10-year renewal option. We receive gasoline and distillates at this terminal from Tesoro's Anacortes refinery through a third-party common carrier pipeline. We also have access to a marine dock owned by the Port of Vancouver under a non-preferential berthing agreement, which allows us to receive gasoline and distillates from Tesoro's Anacortes refinery and third-party sources through barge deliveries and to transport those refined products to the terminal on proprietary interconnecting pipelines. Refined products received at this terminal are sold locally by Tesoro and others through our truck loading rack or through barges loaded at the Port of Vancouver dock.

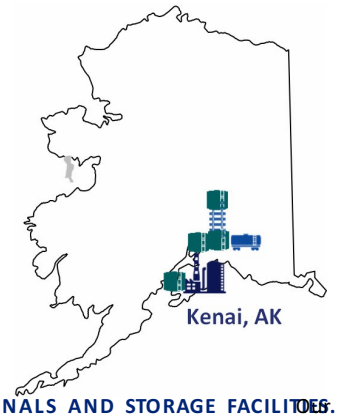
Our Pasco terminal is supplied with refined products from our Northwest Products Pipeline and can receive refined products delivered by barge via the Columbia River. The refined products received by the terminal can be delivered to Spokane, Washington via the Northwest Products Pipeline or distributed via truck from its truck rack.

The Anacortes assets consist of a refined products truck terminal, a NGLs truck terminal, a NGLs rail loading and unloading facility, light products truck rack and crude and heavy oil storage tanks with a shell capacity of approximately 1.5 million barrels, all located at Tesoro's Anacortes refinery. The Anacortes terminal is included in the real property leased under the agreement with Tesoro for the Anacortes Rail Facility.

The Anacortes Rail Facility in Washington includes an unloading platform with receiving and departing tracks capable of handling a train, as well as additional short track spurs. The facility, which was placed in service in September 2012, has a permitted capacity to unload up to an annual average of 50 Mbpd of crude oil to Tesoro's Anacortes refinery. We entered into an agreement with Tesoro to lease its real property at the Anacortes Rail Facility for a term of ninety-nine years.




**NORTH DAKOTA TERMINAL** We own and operate a refined products terminal located at Tesoro's Mandan refinery. The terminal receives product directly from Tesoro's Mandan refinery.




**ALASKA TERMINALS AND STORAGE FACILITIES.** Our Alaska terminals consist of five terminals located in Anchorage and Nikiski. The Anchorage terminal is located on property at two adjacent leaseholds within the Port of Anchorage. A portion of the terminal is on land leased from the Alaska Railroad Corporation through December 31, 2021. We may renew the lease for one additional five-year term. The remainder of the terminal is on land we lease from the Municipality of Anchorage through November 1, 2035. We may renew the lease for up to two additional five-year terms. This terminal has the ability to receive refined products from Tesoro's Alaska refinery through our state-regulated common carrier pipeline and from marine vessels through the Port of Anchorage. The terminal also has a rail rack that is leased to a third party. It can hold and unload rail cars and is connected to a pipeline that runs to a neighboring third-party jet fuel storage facility. Refined products received at the terminals are sold locally by Tesoro and others through separate truck loading racks, through third-party barges loaded at a Port of Anchorage dock or through pipelines to a third-party storage facility. The Nikiski terminal includes a truck rack and storage tanks with approximately 212,000 barrels of storage capacity. The terminal is supplied with refined products by a direct pipeline from Tesoro's Kenai refinery.

On July 1, 2016, we entered into an agreement with Tesoro, our general partner, TLO and Tesoro Alaska Company LLC, a subsidiary of Tesoro ("TAC"), pursuant to which TAC agreed to contribute to TLO certain terminalling and storage assets (the "Alaska Storage and Terminalling Assets Purchase"). The terminalling and storage assets include:

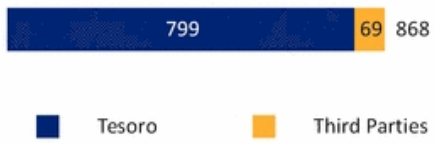
- tankage with a shell capacity of approximately 3.5 million barrels located at TAC's refinery in Kenai, Alaska, related equipment and ancillary facilities used in the operation thereof;
- all of TAC's limited liability company interests in Tesoro Alaska Terminals LLC, a wholly-owned subsidiary of TAC, which owns (i) a bulk tank farm and terminal facility located at the Port of Anchorage in Anchorage, Alaska with 580 thousand barrels of in-service storage capacity for refined products, a truck rack and a rail-loading facility, and (ii) a terminal facility located at the Fairbanks International Airport in Fairbanks, Alaska, with 22.5 thousand barrels of in-service capacity for refined products and a truck rack; and
- certain related assets used in connection with the foregoing assets.

In connection with the Alaska Storage and Terminalling Assets Purchase, we entered into certain commercial agreements with Tesoro, TAC, our general partner, TRMC and TLO, as applicable.

## TRANSPORTATION

We own and operate the Northwest Products Pipeline, a common carrier refined products pipeline that is the primary transportation option from Salt Lake City to Idaho and eastern Washington, a refined products pipeline connecting Tesoro's Kenai refinery to Anchorage, Alaska and a southern California transportation pipeline system. We also own a number of proprietary pipelines in Salt Lake City and Los Angeles that transport a number of products between various facilities, including Tesoro's refineries, and other owned and third-party terminals and pipelines. The chart below shows the total average throughput utilized by Tesoro and third parties for transportation services on our crude oil and refined products pipelines for the year ended December 31, 2016.

**TLLP TRANSPORTATION VOLUME (in Mbpd)**



## COMMERCIAL AGREEMENTS

### TESORO

Tesoro accounted for $715 million, or 59%, of our total revenues in the year ended December 31, 2016. No revenue was recorded by the Predecessors for transactions with Tesoro in the Terminalling and Transportation segment prior to the Acquisitions from Tesoro during the year ended December 31, 2016.

We process gas for certain producers under keep-whole processing agreements. Under a keep-whole agreement, normally a producer would transfer title of the NGLs produced during gas processing and the processor, in exchange, would deliver to the producer natural gas with a BTU content equivalent to the NGLs that would be removed. However, TLLP entered into an agreement with Tesoro, which transfers the commodity risk exposure associated with these keep-whole processing agreements from TLLP to Tesoro (the "Keep-Whole Commodity Agreement"). Under the Keep-Whole Commodity Agreement with Tesoro, Tesoro pays TLLP a processing fee for NGLs related to keep-whole agreements and delivers the replaced natural gas to the producers on behalf of TLLP. TLLP pays Tesoro a marketing fee in exchange for assuming the commodity risk. See Note 3 to our consolidated financial statements in Item 8 for additional information on our keep-whole agreements.

We have various long-term, fee-based commercial agreements with Tesoro, under which we provide pipeline transportation, trucking, terminal distribution, storage services and coke handling services to Tesoro. See Note 3 to our consolidated financial statements in Item 8 for additional information on our commercial agreements.

### THIRD-PARTIES

Third-party agreements accounted for $505 million, or 41%, of our total revenues for the year ended December 31, 2016. Of this, approximately $337 million is under committed arrangements in which we provide gathering, processing, pipeline transportation, terminal distribution and storage services. QEP Resources accounted for 13% of our total revenues in the year ended December 31, 2016.

## COMPETITION

**GATHERING.** Our High Plains System competes with a number of transportation companies for gathering and transporting crude oil produced in the Bakken Region. We may also compete for opportunities to build gathering lines from producers or other pipeline companies. Other companies have existing pipelines that are available to ship crude oil and continue to (or have announced their intent to) expand their pipeline systems in the Bakken Region. We also compete with third-party carriers that deliver crude oil by truck.

Although we compete for third-party shipments of crude oil on our High Plains System, our contractual relationship with Tesoro under our Transportation Services Agreement (High Plains System) (the "High Plains Pipeline Transportation Services Agreement") and our connection to Tesoro's Mandan refinery provide us a strong competitive position in the Bakken Region.

Our competitors for natural gas gathering include other midstream companies and producers. Competition for natural gas volumes is primarily based on reputation, commercial terms, reliability, service levels, flexibility, access to markets, location, available capacity, capital expenditures and fuel efficiencies. In addition to competing for crude oil and natural gas volumes, we face competition for customer markets, which is primarily based on the proximity of the pipelines to the markets, price and assurance of supply.

**PROCESSING.** Our competitors for processing include other midstream companies and producers. Competition for natural gas volumes is primarily based on reputation, commercial terms, reliability, service levels, flexibility, access to markets, location, available capacity, capital expenditures and fuel efficiencies. In addition to competing for natural gas volumes, we face competition for customer markets, which is primarily based on the proximity of the facilities to the markets, price and assurance of supply.

**TERMINALLING AND TRANSPORTATION.** Our competition primarily comes from independent terminal and pipeline companies, integrated petroleum companies, refining and marketing companies and distribution companies with marketing and trading arms. Competition in particular geographic areas is affected primarily by the volumes of refined products produced by refineries located in those areas, the availability of refined products and the cost of transportation to those areas from refineries located in other areas.

We may compete with third-party terminals for volumes in excess of minimum volume commitments under our commercial agreements with Tesoro and third-party customers as other terminals and pipelines may be able to supply Tesoro's refineries or end user markets on a more competitive basis, due to terminal location, price, versatility and services provided. If Tesoro's customers reduced their purchases of refined products from Tesoro due to the increased availability of less expensive product from other suppliers or for other reasons, Tesoro may only receive or deliver the minimum volumes through our terminals (or pay the shortfall payment if it does not deliver the minimum volumes), which would decrease our revenues.

## PIPELINE, TERMINAL AND RAIL SAFETY

**PIPELINE SAFETY.** Our pipelines, gathering systems and terminal operations are subject to increasingly strict safety

laws and regulations. The transportation and storage of refined products, natural gas and crude oil involve a risk that hazardous liquids or natural gas may be released into the environment, potentially causing harm to the public or the environment. The U.S. Department of Transportation, through the Pipeline and Hazardous Materials Safety Administration ("PHMSA") and state agencies, enforces safety regulations governing the design, construction, operation, maintenance, inspection and management of our pipeline and storage facilities. These regulations require the development and implementation of pipeline integrity management programs, which include the inspection and testing of pipelines and the investigation of anomalies and if necessary, corrective action. These regulations also require that pipeline operation and maintenance personnel meet certain qualifications and that pipeline operators develop comprehensive spill response plans, including extensive spill response training for pipeline personnel.

We may incur significant costs and liabilities associated with repair, remediation, preventative or mitigation measures associated with our pipelines. These costs and liabilities might relate to repair, remediation, preventative or mitigating actions that may be determined to be necessary as a result of the testing program, as well as lost cash flows resulting from shutting down our pipelines during such repairs. Additionally, if we fail to comply with PHMSA or comparable state regulations, we could be subject to penalties and fines. If future PHMSA regulations impose new regulatory requirements on our assets, the costs associated with compliance could have a material effect on our operations.

While we operate and maintain our pipelines consistent with applicable regulatory and industry standards, we cannot predict the outcome of legislative or regulatory initiatives, which could have a material effect on our operations, particularly by extending more stringent and comprehensive safety regulations to pipelines and gathering lines not previously subject to such requirements. While we expect any legislative or regulatory changes to allow us time to comply with new requirements, costs associated with compliance may have a material effect on our operations.

**NATURAL GAS PROCESSING SAFETY.** Our natural gas processing plants and operations are subject to safety regulations under the U.S. Occupational Safety Health Administration ("OSHA") and comparable state and local requirements. A number of our natural gas processing facilities are also subject to OSHA's process safety management regulations and the Environmental Protection Agency's ("EPA") risk management plan requirements. Together these regulations are designed to prevent or minimize the probability and consequences of an accidental release of toxic, reactive, flammable or explosive chemicals. A number of our facilities are also regulated under the U.S. Department of Homeland Security Chemical Facility Anti-Terrorism Standards ("Homeland Standards"), which are designed to regulate the security of high-risk chemical facilities. Our natural gas processing plants and operations are operated in a manner consistent with industry safe practices and standards.

**TERMINAL SAFETY.** Our operations are subject to regulations under OSHA and comparable state and local regulations. Our terminal facilities are operated in a manner consistent with industry safe practices and standards. The storage tanks that are at our terminals are designed for crude oil and refined products and are equipped with appropriate controls that minimize emissions and promote safety. Our terminal facilities have response and control plans, spill prevention and other programs to respond to emergencies. Our terminals are regulated under the Homeland Standards or U.S. Coast Guard Maritime Transportation Act, which are designed to regulate the security of high–risk chemical facilities.

**RAIL SAFETY.** Our rail operations are limited to loading and unloading rail cars at our facilities. Generally, rail operations are subject to federal, state and local regulations. We believe our rail car loading and unloading operations meet or exceed all applicable regulations.

## RATE AND OTHER REGULATIONS

**GENERAL INTERSTATE REGULATION.** Our High Plains Pipeline, Northwest Products Pipeline and two other interstate pipelines are common carriers subject to regulation by various federal, state and local agencies. The FERC regulates interstate transportation on our crude oil transportation and gathering pipelines and Northwest Products Pipeline under the Interstate Commerce Act ("ICA"), the Energy Policy Act of 1992 (the "EPAct"), and the rules and regulations promulgated under those laws. The ICA and its implementing regulations require that tariff rates for interstate service on oil pipelines, including interstate pipelines that transport crude oil and refined products (collectively, "Petroleum Pipelines"), be just and reasonable and non-discriminatory, and that we file such rates and terms and conditions of service with the FERC. Under the ICA, shippers may challenge new or existing rates or services. The FERC is authorized to suspend the effectiveness of a challenged rate for up to seven months, though rates are typically not suspended for the maximum allowable period. A successful rate challenge could result in Petroleum Pipelines paying refunds for the period that the rate was in effect and/or reparations for up to two years prior to the filing of a complaint. There are no pending challenges or complaints regarding our current tariffs.

Certain interstate Petroleum Pipeline rates in effect at the inception of the EPAct are deemed to be just and reasonable under the ICA. These rates are referred to as grandfathered rates. Our rates for interstate transportation service on the Northwest Products Pipeline are grandfathered. The FERC allows for an annual rate change

under its indexing methodology, which applies to transportation on our High Plains Pipeline and Northwest Products Pipeline.

We own a natural gas pipeline in Wyoming. Under the Natural Gas Act of 1938 (the "NGA"), FERC has authority to regulate natural gas companies that provide natural gas pipeline transportation services in interstate commerce. Federal regulation of interstate pipelines extends to such matters as rates, services, and terms and conditions of service; the types of services offered to customers; the certification and construction of new facilities; the acquisition, extension, disposition or abandonment of facilities; the maintenance of accounts and records; relationships between affiliated companies involved in certain aspects of the natural gas business; the initiation and continuation of services; market manipulation in connection with interstate sales, purchases or transportation of natural gas; and participation by interstate pipelines in cash management arrangements. The FERC prohibits natural gas companies from unduly preferring or unreasonably discriminating against any person with respect to pipeline rates or terms and conditions of service. Under the NGA, the rates for service on interstate facilities must be just and reasonable and not unduly discriminatory. The FERC has granted the Rendezvous Pipeline market-based rate authority, subject to certain reporting requirements. If the FERC were to suspend Rendezvous Pipeline's market-based rate authority, it could have an adverse impact on our revenue associated with the transportation service.

**INTRASTATE REGULATION.** The intrastate operations of our High Plains Pipeline in North Dakota and our refined products pipeline in Alaska are subject to regulation by the North Dakota Public Service Commission ("NDPSC") and the Regulatory Commission of Alaska, respectively. Applicable state law requires that:

- pipelines operate as common carriers;
- access to transportation services and pipeline rates be non-discriminatory;
- transported crude oil volumes be apportioned without unreasonable discrimination if more crude oil is offered for transportation than can be transported immediately; and
- pipeline rates be just and reasonable.

**PIPELINES.** We operate our crude oil gathering pipelines and the Northwest Products Pipeline as common carriers pursuant to tariffs filed with the FERC, and the NDPSC for the High Plains Pipeline. The High Plains Pipeline offers tariffs from various locations in Montana and North Dakota to a variety of destinations, which are utilized by Tesoro and various third parties. Tesoro has historically shipped the majority of the volumes transported on the High Plains Pipeline, which is expected to continue in 2017. The Northwest Products Pipeline extends from Salt Lake City, Utah to Spokane, Washington and offers tariffs from various locations to a variety of destinations, which serves both third-party customers and Tesoro. We have additional pipelines that provide gathering of condensate in Wyoming and other pipelines that provide crude oil gathering in North Dakota.

The FERC and state regulatory agencies generally have not investigated rates on their own initiative absent a protest or a complaint by a shipper. Tesoro has agreed not to contest our tariff rates for the term of our commercial agreements. However, our pipelines are common carrier pipelines, and we may be required to accept additional third-party shippers who wish to transport through our system. The FERC or the NDPSC could investigate our rates at any time. If an interstate rate for service on the High Plains Pipeline or Northwest Products Pipeline were investigated, the challenger would have to establish that there has been a substantial change since the enactment of the EPAct, in either the economic circumstances or the nature of the service that formed the basis for the rate. If our rates are investigated, the inquiry could result in a comparison of our rates to those charged by others or to an investigation of our costs.

Section 1(b) of the NGA exempts natural gas gathering facilities from the FERC's jurisdiction. Although the FERC has not made formal determinations with respect to all of the facilities we consider to be gathering facilities, we believe that our natural gas pipelines meet the FERC's traditional tests to determine that they are gathering pipelines and are, therefore, not subject to FERC jurisdiction.

States may regulate gathering pipelines. State regulation of gathering facilities generally includes various safety, environmental and, in some circumstances, nondiscriminatory take requirements and complaint-based regulation. Our natural gas and crude oil gathering operations are subject to ratable take and common purchaser statutes in most of the states in which we operate. These statutes generally require our gathering pipelines to take natural gas or crude oil without undue discrimination as to source of supply or producer. The regulations under these statutes can have the effect of imposing some restrictions on our ability as an owner of gathering facilities to decide with whom we contract to gather natural gas or crude oil. Failure to comply with state regulations can result in the imposition of administrative, civil and criminal remedies. To date, there has been no adverse effect to our systems due to these regulations.

## ENVIRONMENTAL REGULATIONS

**GENERAL.** Our operations of pipelines, terminals and associated facilities in connection with the storage and transportation of crude oil, refined products and biofuels as well as our operations of gathering, processing and associated facilities related to the movement of natural gas are subject to extensive and frequently-changing federal, state and local laws, regulations, permits and ordinances relating to the protection of the environment. Among other

things, these laws and regulations govern the emission or discharge of pollutants into or onto the land, air and water, the handling and disposal of solid, liquid, salt water and hazardous wastes and the remediation of contamination. Compliance with existing and anticipated environmental laws and regulations increases our overall cost of business, including our capital costs to construct, maintain, operate and upgrade equipment and facilities. Failure to comply with these laws and regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties. Certain environmental statutes impose strict, joint and several liability for costs required to clean up and restore sites where hazardous substances, hydrocarbons or wastes have been disposed or otherwise released. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances, hydrocarbons or other waste products into the environment. These requirements may also significantly affect our customers' operations and may have an indirect effect on our business, financial condition and results of operations. However, we do not expect such effects will have a material impact on our financial position, results of operations or liquidity.

Under the Third Amended and Restated Omnibus Agreement ("Amended Omnibus Agreement") and the Carson Assets Indemnity Agreement, Tesoro indemnifies us for certain matters, including environmental, title and tax matters associated with the ownership of our assets at or before the closing of the Initial Offering and the subsequent Acquisitions from Tesoro. See Note 10 to our consolidated financial statements in Part II, Item 8 for additional information regarding the Amended Omnibus Agreement and Carson Assets Indemnity Agreement.

**AIR EMISSIONS AND CLIMATE CHANGE REGULATIONS** Our operations are subject to the Clean Air Act and comparable state and local statutes. Under these laws, permits may be required before construction can commence on a new source of potentially significant air emissions, and operating permits may be required for sources that are already constructed. If regulations become more stringent, additional emission control technologies may be required to be installed at our facilities and our ability to secure future permits may become less certain. Any such future obligations could require us to incur significant additional capital or operating costs.

The EPA has undertaken significant regulatory initiatives under authority of the Clean Air Act's New Source Review/Prevention of Significant Deterioration program ("NSR/PSD") in an effort to further reduce emissions of volatile organic compounds, nitrogen oxides, sulfur dioxide, and particulate matter. These regulatory initiatives have been targeted at industries with large manufacturing facilities that are significant sources of emissions, such as refining, paper and pulp, and electric power generating industries. The basic premise of these initiatives is the EPA's assertion that many of these industrial establishments have modified or expanded their operations over time without complying with NSR/PSD regulations adopted by the EPA that require permits and new emission controls in connection with any significant facility modifications or expansions that can result in emission increases above certain thresholds. As part of this ongoing NSR/PSD regulatory initiative, the EPA has entered into consent decrees with several refiners, including Tesoro, that require the refiners to make significant capital expenditures to install emissions control equipment at selected facilities. However, we do not expect any additional requirements will have a material impact on our financial position, results of operations or liquidity.

On October 1, 2015, EPA strengthened the National Ambient Air Quality Standards ("NAAQS") for ground-level ozone to 70 parts per billion ("ppb") from the 75 ppb level set in 2008. To implement the revised ozone NAAQS, all states will need to review their existing air quality management infrastructure State Implementation Plan for ozone and ensure it is appropriate and adequate. Where areas remain in ozone non-attainment, or come into ozone non-attainment as a result of the revised NAAQS it is likely that additional planning and control obligations will be required. States may impose additional emissions control requirements on stationary sources, changes in fuels specifications, and changes in fuels mix and mobile source emissions controls. The ongoing and potential future requirements imposed by states to meet the ozone NAAQS could have direct impacts on Tesoro facilities through additional requirements and increased permitting costs, and could have indirect impacts through changing or decreasing fuel demand.

The Energy Independence and Security Act was enacted into federal law in December 2007 creating a second Renewable Fuels Standard ("RFS2") requiring the total volume of renewable transportation fuels (including ethanol and advanced biofuels) sold or introduced in the U.S. to reach 36.0 billion gallons by 2022. On December 14, 2015, the EPA issued a final rule establishing the Renewable Fuel Standard requirements for 2014 (16.28 billion gallons), 2015 (16.93 billion gallons) and 2016 (18.11 billion gallons). The ongoing and increasing requirements for renewable fuels in RFS2 could reduce future demand for petroleum products and thereby have an indirect effect on certain aspects of our business, although it could increase demand for our ethanol and biodiesel fuel blending services at our truck loading racks.

Currently, multiple legislative and regulatory measures to address greenhouse gas emissions are in various phases of discussion or implementation. These include actions to develop national, state or regional programs, each of which could require reductions in our greenhouse gas emissions or those of Tesoro and our other customers. On October 22, 2015, the EPA finalized amendments to the Petroleum and Natural Gas Systems source category (Subpart W) of the

Greenhouse Gas Reporting Program, including adding a new Onshore Petroleum and Natural Gas Gathering and Boosting segment, which will include greenhouse gas emissions from equipment and sources within the petroleum and natural gas gathering and boosting systems. In September 2015, the EPA announced proposed new source performance standards for methane (a greenhouse gas) for new and modified oil and gas sector sources. These and other legislative regulatory measures will impose additional burdens on our business and those of Tesoro and our other customers.

**HAZARDOUS SUBSTANCES AND WASTE REGULATIONS.** To a large extent, the environmental laws and regulations affecting our operations relate to the release of hazardous substances or solid wastes into soils, groundwater, and surface water, and include measures to control pollution of the environment. These laws generally regulate the generation, storage, treatment, transportation, and disposal of solid and hazardous waste. They also require corrective action, including investigation and remediation, at a facility where such waste may have been released or disposed. For instance, the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), and comparable state laws, impose liability, without regard to fault or to the legality of the original conduct, on certain classes of persons that contributed to the release of a hazardous substance into the environment. These persons include the owner or operator of the site where the release occurred and companies that disposed of, or arranged for the disposal of, the hazardous substances found at the site.

Under CERCLA, these persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. In the course of our ordinary operations, we generate waste that falls within CERCLA's definition of a hazardous substance and, as a result, may be jointly and severally liable under CERCLA for all or part of the costs required to clean up sites. Costs for these remedial actions, if any, as well as any related claims are all covered by indemnities from Tesoro to the extent the release occurred or existed before the close of the Initial Offering and subsequent Acquisitions from Tesoro. Neither the Partnership nor Tesoro are currently engaged in any CERCLA related claims.

We also generate solid and liquid wastes, including hazardous wastes that are subject to the requirements of the Federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes. From time to time, the EPA considers the adoption of stricter disposal standards for non-hazardous wastes, including wastes generated from the transportation and storage of crude oil, natural gas, NGLs and refined products. We are not currently required to comply with a substantial portion of the RCRA requirements because the majority of our facilities operate as small quantity generators of hazardous wastes by the EPA and state regulations. However, it is possible that additional wastes, which could include wastes currently generated during operations, will in the future be designated as hazardous wastes. Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes. On November 28, 2016, the EPA published the final Hazardous Waste Generator Improvements Rule. This rule provided some additional flexibility for small generators but also increased certain recordkeeping and administrative burdens. Any additional changes in the regulations could increase our capital or operating costs.

We acquired two salt water disposal wells located in North Dakota on January 1, 2017. These facilities are permitted under state regulations to accept produced water and fluids or waters from drilling and gas plant operations. These fluids are considered exempt from RCRA requirements per the Exploration & Production ("E&P") exemption. Changes to state or federal regulations regarding the E&P exemption or rules for the operation of disposal wells could impose additional burdens on our business.

We currently own and lease properties where crude oil, refined petroleum hydrocarbons and fuel additives, such as methyl tertiary butyl ether and ethanol have been handled for many years by previous owners. At some facilities, hydrocarbons or other waste may have been disposed of or released on or under the properties owned or leased by us or on or under other locations where these wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under our control. These properties and wastes disposed thereon may be subject to CERCLA, RCRA, and analogous state laws. Under these laws, we could be required to remove or remediate previously disposed or released wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including impacted groundwater), or to perform remedial operations to prevent future contamination to the extent we are not indemnified for such matters.

**WATER POLLUTION REGULATIONS.** Our operations can result in the discharge of pollutants, including chemical components of crude oil, natural gas, NGLs and refined products. Many of our facilities operate near environmentally sensitive waters, where tanker, pipeline and other petroleum product transportation operations are regulated by federal, state and local agencies and monitored by environmental interest groups. The transportation and storage of crude oil and refined products over and adjacent to water involves risk and subjects us to the provisions in some cases of the Oil Pollution Act of 1990 ("OPA 90"), and in all cases to related state requirements. These

requirements can subject owners of covered facilities to strict, joint, and potentially unlimited liability for removal costs and other consequences of an oil spill where the spill is into navigable waters, along shorelines or in the exclusive economic zone of the United States. In the event of an oil spill into navigable waters, substantial liabilities could be imposed upon us. States in which we operate have also enacted similar, or in some cases, more stringent laws.

Regulations under the Water Pollution Control Act of 1972 (the "Clean Water Act"), OPA 90 and state laws also impose additional regulatory burdens on our operations. Spill prevention control and countermeasure requirements of federal laws and state laws require containment to mitigate or prevent contamination of waters in the event of a crude oil, natural gas, NGLs or refined products overflow, rupture, or leak from above-ground pipelines and storage tanks. The Clean Water Act requires us to maintain spill prevention control and countermeasure plans at our facilities with above-ground storage tanks and pipelines. In addition, OPA 90 requires that most oil transport and storage companies maintain and update various oil spill prevention and oil spill contingency plans. We maintain such plans, and where required have submitted plans and received federal and state approvals necessary to comply with OPA 90, the Clean Water Act and related regulations. Our crude oil, natural gas, NGLs and refined product spill prevention plans and procedures are frequently reviewed and modified to prevent crude oil, natural gas, NGLs and refined product releases and to minimize potential impacts should a release occur. At our facilities adjacent to water, federally certified Oil Spill Response Organizations ("OSROs") are available to respond to a spill on water from above ground storage tanks or pipelines. We have contracts in place to ensure support from the respective OSROs for spills in both open and inland waters.

The OSROs are capable of responding to a spill on water equal to the greatest volume of the largest above ground storage tank at our facilities. Those volumes range from 5,000 barrels to 125,000 barrels. The OSROs have the highest available rating and certification from the United States Coast Guard ("USCG") and are required to annually demonstrate their response capability to the USCG and state agencies. The OSROs rated and certified to respond to open water spills (which include those OSROs with which we contract at our marine terminals that have received the highest available rating and certification from the USCG) must demonstrate the capability to recover up to 50,000 barrels of oil per day and store up to 100,000 barrels of recovered oil at any given time. The OSROs rated and certified to respond to inland spills must demonstrate the capability to recover up to 7,500 barrels of oil per day and store up to 15,000 barrels of recovered oil at any given time.

At each of our facilities, we maintain spill-response capability to mitigate the impact of a spill from our facilities until either an OSRO or other contracted service providers can deploy, and Tesoro has entered into contracts with various parties to provide spill response services augmenting that capability, if required. Our spill response capability at our marine terminals meets the United States Coast Guard and state requirements to either deploy on-water containment equipment two times the length of a vessel at our dock or have smaller vessels available. Our spill response capabilities at our other facilities meet applicable federal and state requirements. In addition, we contract with various spill-response specialists to ensure appropriate expertise is available for such contingencies. We believe these contracts provide the additional services necessary to meet or exceed all regulatory spill-response requirements.

The Clean Water Act also imposes restrictions and strict controls regarding the discharge of pollutants into navigable waters. In certain locations, we contract with third parties for wastewater disposal. Our remaining facilities may have portions of their wastewater reclaimed by Tesoro's nearby refineries. In the event regulatory requirements change, or interpretations of current requirements change, and our facilities are required to undertake different wastewater management arrangements, we could incur substantial additional costs. The Clean Water Act and RCRA can both impose substantial potential liability for the violation of permits or permitting requirements and for the costs of removal, remediation, and damages resulting from such discharges. In addition, states maintain groundwater protection programs that require permits for discharges or operations that may impact groundwater.

**TRIBAL LANDS** Various federal agencies, including the EPA and the Department of the Interior, along with certain Native American tribes, promulgate and enforce regulations pertaining to oil and gas operations on Native American tribal lands where we operate. These regulations include such matters as lease provisions, drilling and production requirements, and standards to protect environmental quality and cultural resources. For example, the EPA has established a preconstruction permitting program for new and modified minor sources throughout Indian country, and new and modified major sources in nonattainment areas in Indian country effective March 2016. In addition, each Native American tribe is a sovereign nation having the right to enforce laws and regulations and to grant approvals independent from federal, state and local statutes and regulations. These laws and regulations may increase our costs of doing business on Native American tribal lands and impact the viability of, or prevent or delay our ability to conduct, our natural gas gathering operations on such lands.

**HYDRAULIC FRACTURING** We do not conduct hydraulic fracturing operations, but substantially all of our customers' natural gas and crude oil production requires hydraulic fracturing as part of the completion process. Hydraulic fracturing is an essential and common practice in the oil and natural gas industry used to stimulate production of natural gas and/or oil from dense subsurface rock formations. The process is typically regulated by state oil and natural-gas commissions, but the EPA and other federal agencies have

asserted federal regulatory authority over the process. For example, the EPA has announced its intent to propose standards for wastewater discharge from oil and gas extraction activities, and in May 2014 issued an Advanced Notice of Proposed Rulemaking seeking public comment on its plans to develop and issue regulations under the Toxic Substances Control Act to require companies to disclose information regarding the chemicals used in hydraulic fracturing. In addition, the U.S. Department of the Interior published a revised proposed rule on May 16, 2013 that would implement updated requirements for hydraulic fracturing activities on federal lands, including new requirements relating to public disclosure, well bore integrity, and handling of flowback water.

If additional levels of regulation and permits are required through the adoption of new laws and regulations at the federal, state or local level that could lead to delays, increased operating costs and prohibitions for producers who drill near our pipelines, which could reduce the volumes of crude oil and natural gas available to move through our gathering systems and processing facilities, which could materially adversely affect our revenue and results of operations.

## WORKING CAPITAL

We fund our business operations through a combination of available cash and equivalents and cash flows generated from operations. In addition, we have an available revolving line of credit and we may issue additional debt or equity securities for additional working capital or capital expenditures. See "Capital Resources and Liquidity" in Item 7 for additional information regarding working capital.

## EMPLOYEES

All of the employees that conduct our business are employed by our general partner and its affiliates, and we believe that our general partner and its affiliates have a satisfactory relationship with those employees. TLGP had 1,088 employees performing services for our operations as of December 31, 2016, 204 of whom are covered by collective bargaining agreements that expire on February 1, 2019.

## WEBSITE ACCESS TO REPORTS AND OTHER INFORMATION

Our Internet website address is http://www.tesorologistics.com. Information contained on our Internet website is not part of this Annual Report on Form 10-K.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other public filings with the Securities and Exchange Commission ("SEC") are available, free of charge, on our website as soon as reasonably practicable after we file them with, or furnish them to, the SEC. You may also access these reports on the SEC's website at http://www.sec.gov.

## ITEM 1A. RISK FACTORS

*Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. If any of the following risks were actually to occur, our business, financial condition, results of operations and our cash flows could be materially adversely affected. In that case, we might not be able to pay distributions on our common units or the trading price of our common units could decline.*

### RISKS RELATED TO OUR BUSINESS

**Our operations and Tesoro's refining operations are subject to many risks and operational hazards, which may result in business interruptions and shutdowns of our or Tesoro's facilities and damages for which we may not be fully covered by insurance. If a significant accident or event results in a business interruption or shutdown, our operations and financial results could be adversely affected.**

Our operations are subject to all of the risks and operational hazards inherent in transporting and storing crude oil and refined products, as well as the gathering, processing and treating of natural gas and the fractionation of NGLs, including:

- damages to pipelines, plants and facilities, related equipment and surrounding properties caused by earthquakes, floods, fires, severe weather, explosions and other natural disasters as well as acts of terrorism;
- damage to pipelines and other assets from construction, farm and utility equipment;

- damage to third-party property or persons, including injury or loss of life;
- mechanical or structural failures on our pipelines, at our facilities or at third-party facilities on which our operations are dependent, including Tesoro's facilities;
- ruptures, fires and explosions;
- leaks or losses of crude oil, natural gas, NGLs, refined products and other hydrocarbons or other regulated substances as a result of the malfunction of equipment or facilities;
- curtailments of operations relative to severe seasonal weather; and
- other hazards.

These risks could result in substantial losses due to personal injury and/or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage, as well as business interruptions or shutdowns of our facilities. Any such event or unplanned shutdown could have a material adverse effect on our business, financial condition and results of operations. In addition, Tesoro's refining operations, on which our operations are substantially dependent, are subject to similar operational hazards and risks inherent in refining crude oil.

A significant portion of our operating responsibility also requires us to insure the quality and purity of the products loaded at our terminals and pipeline connections. If our quality control measures fail, we may have contaminated or off-specification products commingled in our pipelines and storage tanks or off-specification product could be sent to public gas stations and other end users. These types of incidents could result in product liability claims from our customers or other pipelines to which our pipelines connect. There can be no assurance that product liability against us would not have a material adverse effect on our business or results of operations or our ability to maintain existing customers or retain new customers.

Our current insurance coverage does not insure against all potential losses, and we could suffer losses for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The occurrence of an event that is not fully covered by insurance or failure by an insurer to honor its coverage commitments for an insured event could have a material adverse effect on our business, financial condition and results of operations.

**If we are unable to complete acquisitions on economically acceptable terms or within anticipated timeframes from Tesoro or third parties, our future growth will be limited, and any acquisitions we make may reduce, rather than increase, our cash flows and ability to make distributions to unitholders.**

Our growth strategy depends in part on acquisitions that increase distributable cash flow. The acquisition component of our growth strategy is based, in large part, on our expectation of ongoing divestitures of gathering, processing, transportation and storage assets by industry participants, including Tesoro. If we are unable to make acquisitions from Tesoro or third parties because (1) there is a material decrease in divestitures of gathering, processing, transportation and storage assets, (2) we are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts, (3) we are unable to obtain financing for these acquisitions on economically acceptable terms, (4) we are unsuccessful in our bid against competing potential purchasers, or (5) for any other reason, our ability to grow our operations and increase cash distributions to our unitholders will be limited. Even if we do consummate acquisitions that we believe will be accretive, they may in fact decrease distributable cash flow as a result of incorrect assumptions in our evaluation of such acquisitions or unforeseen consequences or other external events beyond our control. Additionally, regulatory agencies could require us to divest certain of our assets in order to consummate future acquisitions. We may not be able to consummate any of our expected acquisitions within our desired timeframes or at all. Furthermore, if we consummate any future acquisitions, our capitalization and results of operations may change significantly and unitholders will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

**Our right of first offer to acquire certain of Tesoro's existing assets is subject to risks and uncertainty, and ultimately we may not acquire any of those assets. In addition, we may not be able to acquire other assets that Tesoro has said it may offer to us in the future for acquisition.**

Our Amended Omnibus Agreement provides us with a right of first offer on certain of Tesoro's existing logistics assets for a period of ten years after the closing of our initial public offering. The consummation and timing of any future acquisitions of these assets will depend upon, among other things, Tesoro's willingness to offer these assets for sale, our ability to negotiate acceptable purchase agreements and commercial agreements with respect to the assets and our ability to obtain financing on acceptable terms. We may not be able to successfully consummate any future acquisitions pursuant to our right of first offer, and Tesoro is under no obligation to accept any offer that we may choose to make. In addition, certain of the assets covered by our right of first offer may require substantial capital expenditures in order to maintain compliance with applicable regulatory

requirements or otherwise make them suitable for our commercial needs. For these or a variety of other reasons, we may decide not to exercise our right of first offer if and when any assets are offered for sale, and our decision will not be subject to unitholder approval. In addition, Tesoro may terminate our right of first offer if it no longer controls our general partner.

In addition to the assets with respect to which we have a right of first offer, Tesoro has sold to us additional logistics assets that it developed or acquired from third parties. However, we cannot provide assurance of Tesoro's continued willingness to offer these types of assets for sale, our ability to negotiate acceptable purchase agreements and commercial agreements with respect to the assets or our ability to obtain financing on acceptable terms.

**A material decrease in our customers' profitability could materially reduce the volumes of crude oil, refined products, natural gas and NGLs that we handle, which could adversely affect our financial condition, results of operations, cash flows and ability to make distributions to our unitholders.**

The volume of crude oil, refined products, natural gas and NGLs that we distribute and store at our terminals, transport and process depends substantially on Tesoro's and other customers' profit margins, the market price of crude oil, natural gas, NGLs and other refinery feedstocks, and product demand. These prices are impacted by numerous factors beyond our control or the control of Tesoro and other third-party customers. Such factors include product margins and the global supply and demand for crude oil, natural gas, NGLs, gasoline and other refined products.

**A material decrease in the crude oil or natural gas produced in the midwestern United States area could materially reduce the volume of crude oil gathered and transported by our High Plains System or the volume of natural gas gathered, processed, transported and fractionated by our Rockies and Bakken Region assets.**

The volume of crude oil that we gather and transport on our High Plains System in excess of committed volumes depends on demand for crude oil. This depends, in part, on the availability of attractively-priced, high-quality crude oil produced in the Bakken Region. Similarly, the volume of natural gas that we gather, process, and transport, and the volume of NGLs that we fractionate in our Rockies and Bakken Region assets depends on the volume of natural gas and NGLs produced in the Green River, Uinta and Williston basins. Adverse developments in these regions could have a significantly greater impact on our financial condition, results of operations and cash flows than those of our competitors because of our lack of geographic diversity and substantial reliance on several major customers. Accordingly, in addition to general industry risks related to these operations, we may be disproportionately exposed to risks in the area, including:

- the volatility and uncertainty of regional pricing differentials;
- the availability of drilling rigs for producers;
- weather-related curtailment of operations by producers and disruptions to truck gathering operations;
- the nature and extent of governmental regulation and taxation, including regulations related to the exploration, production and transportation of shale oil and natural gas, including hydraulic fracturing and natural gas flaring and rail transportation;
- the development of third-party crude oil or natural gas gathering systems that could impact the price and availability of crude oil or natural gas in these areas; and
- the anticipated future prices of crude oil, refined products, NGLs and natural gas in surrounding markets.

If as a result of any of these or other factors, the volume of crude oil, natural gas or NGLs available in these regions is materially reduced for a prolonged period of time, the volume of our throughputs and the related fees, could be materially reduced. In addition, the construction by third parties of new pipelines in areas in which we own or acquire rail loading or unloading facilities could impact the ability of our rail facilities to remain competitive, resulting in reduced throughput and fees.

**If third-party pipelines or other midstream facilities connected to our crude oil, refined products, natural gas gathering or transportation systems become partially or fully unavailable, or if the volumes we gather or transport do not meet the quality specifications of such pipelines or facilities, our business, results of operations and financial conditions could be adversely effected.**

Certain of our crude oil, refined products, natural gas gathering, processing and transportation systems connect to other pipelines or facilities owned and operated by third parties, such as the Kern River Gas Transmission Company Pipeline, the Northwest Pipeline, the Rockies Express Pipeline, Mid-America Pipeline and others. The continuing operation of such third-party pipelines and other midstream facilities is not within our control. These pipelines and other midstream facilities may become unavailable because of testing, turnarounds, line repair, weather damage, reduced operating pressure, lack of operating capacity,

regulatory requirements and curtailments of receipt or deliveries due to insufficient capacity or other operational issues. In addition, if our costs to access and transport on these third-party pipelines significantly increase, our profitability could be reduced. If any such increase in cost occurs, if any of these pipelines or other midstream facilities become unable to receive, transport or process the products, or if the volumes we gather or transport do not meet the quality requirements of such pipelines or facilities, our business, results of operations and financial condition could be adversely affected.

**Our business is impacted by environmental risks inherent in our operations.**

Our operation of crude oil, refined products, natural gas and produced water pipelines, and terminals and storage facilities is inherently subject to the risks of sudden or gradual spills, discharges or other inadvertent releases of petroleum or other regulated or hazardous substances. For example, in September 2013, we responded to a crude oil pipeline release of approximately 20,000 barrels in a rural field northeast of Tioga, North Dakota. Other spills, discharges and inadvertent releases may have previously occurred or occur in the future; these releases may have been or be in connection with Tesoro's refineries, our pipelines, our terminals and facilities, or any other facility to which we send or have sent wastes or by-products for treatment or disposal. In any such incident, we could be liable for costs and penalties associated with the remediation of such facilities under federal, state and local environmental laws or the common law. We may also be liable for personal injury or property damage claims from third parties alleging contamination from spills or releases from our facilities or operations.

With respect to assets that we acquired from Tesoro, our indemnification for certain environmental liabilities under the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement with Tesoro is generally limited to liabilities identified prior to the earlier of the date that Tesoro no longer controls our general partner or five years after the date of purchase. Even if we are insured or indemnified against environmental risks, we may be responsible for costs or penalties to the extent our insurers or indemnitors do not fulfill their obligations to us. The payment of such costs or penalties could be significant and have a material adverse effect on our business, financial condition and results of operations.

**Climate change legislation or regulation reducing emissions of greenhouse gases could require us to incur significant costs or could result in a decrease in demand for crude oil, refined products, natural gas and NGLs, which could adversely affect our business.**

Currently, various legislative and regulatory measures to address reporting or reduction of greenhouse gas emissions are in various phases of discussion or implementation. Requiring reductions in greenhouse gas emissions could cause us to incur substantial costs to (1) operate and maintain our facilities, (2) install new emission controls at our facilities and (3) administer and manage any greenhouse gas emissions programs, including the acquisition or maintenance of emission credits or allowances. These requirements may also adversely affect the refinery, gas production and other operations of Tesoro and our other customers, leading to an indirect adverse effect on our business, financial condition and results of our operations.

In California, the state legislature adopted Senate Bill 32 ("SB 32") in 2016. SB 32 set a cap on emissions of 40% below 1990 levels by 2030 but did not establish a particular mechanism to achieve that target. The legislature also adopted a companion bill - Assembly Bill 197 ("AB 197") that most significantly directs the California Air Resources Board to prioritize direct emission reductions on large stationary sources. While AB 197 does not specifically preclude a market mechanism, it is expected to result in future regulations that will target greenhouse gas reductions at refineries, in addition to the mandates imposed by the existing cap and trade and low carbon fuel standard programs created by Assembly Bill 32 ("AB 32"). Litigation and appeals related to the constitutionality and enforceability of AB 32 continue and we cannot predict the ultimate outcome. In addition, the implementation and implications of AB 32, SB 32, and AB 197 will take many years to realize.

Requiring a reduction in greenhouse gas emissions and the increased use of renewable fuels could decrease demand for refined products, which could have an indirect, but material, adverse effect on our business, financial condition and results of operations. For example, the EPA has promulgated rules establishing greenhouse gas emission standards for new-model passenger cars, light-duty trucks and medium duty passenger vehicles. These requirements, or new taxes or fees imposed on crude oil, natural gas or refined products to fund clean energy initiatives at the state or federal level, could have an indirect adverse effect on our business due to reduced demand for crude oil, refined products, natural gas and NGLs.

**Our assets and operations are subject to federal, state, and local laws and regulations relating to environmental protection and safety that could require us to make substantial expenditures.**

Our assets and operations involve the transportation and storage of crude oil and refined products, as well as the gathering, conditioning, processing and treating of natural gas and the fractionation of NGLs, which are subject to increasingly stringent and frequently changing federal, state and local laws and regulations governing the discharge of materials into the environment and operational safety matters. We also own or lease a number of properties that have been used to gather, transport, store or

distribute natural gas, produced water, crude oil and refined products for many years, and many of these properties have been operated by third parties whose handling, disposal, or release of hydrocarbons and other wastes were not under our control. Our sites, including storage tanks, wharf and dock operations, pipelines, processing plants, dehydrators, compressor stations and facility loading racks are also subject to federal, state and local restrictions on air emissions. We may be required to address the release of regulated substances into the environment or other conditions discovered in the future that require environmental response actions or remediation. To the extent not covered by insurance or an indemnity, responding to such conditions may cause us to incur potentially material expenditures for response actions, for government penalties, for claims for damages to natural resources, for personal injury or property damage claims from third parties and for business interruption.

Transportation and storage of crude oil and refined products over or under water or proximate to navigable or environmentally sensitive bodies of water occurs at many of our facilities. Such activity involves inherent risks and subjects us to the provisions of OPA 90 or similar state environmental laws. To meet the requirements of these laws, we have contracts with Tesoro, who contracts with third parties to provide coverage in the areas in which we transport or store crude oil and refined products; however, these companies may not be able to adequately contain a worst case discharge, being a spill of up to 125,000 barrels of crude oil from an above ground storage tank adjacent to water, and we cannot ensure that all of their services would be available for our or Tesoro's use at any given time. There are many factors that could inhibit the availability of these service providers, including weather conditions, governmental regulations and other global events that they may be required to respond to by state or federal ruling. In these and other cases, we may be subject to liability in connection with the discharge of crude oil, natural gas, or refined products into navigable waters.

Our business activities are subject to increasingly strict federal, state, and local laws and regulations that require our pipelines, compressor stations, terminals, processing complexes, fractionation plants and storage facilities to comply with various environmental, health and safety requirements regarding the design, installation, testing, construction, and operational management of our facilities. We could incur potentially significant additional expenses if any of our assets were found to be non-compliant. Additional proposals and proceedings that impact our industry are regularly considered by Congress, as well as by state legislatures and federal and state regulatory commissions and agencies and courts. Any future environmental, health and safety requirements or changed interpretations of existing requirements may impose more stringent requirements on our assets and operations, which may require us to incur potentially material expenditures to ensure continued compliance. The violation of such requirements could subject us to the possibility of higher administrative, civil or criminal penalties, the imposition of investigatory and remedial liabilities, and the issuance of injunctions that may limit our operations, subject us to additional operational constraints or prevent or delay construction of additional facilities or equipment. Any of the foregoing could have a material adverse effect on our business, financial condition, or results of operations.

**We rely upon certain critical information systems for the operation of our business, and the failure of any critical information system, including a cyber-security breach, may harm our business.**

We depend heavily on technology infrastructure and rely upon certain critical information systems for the effective operation of our business. These information systems include data networks, telecommunications, cloud-based information controls, software applications and hardware, including those that are critical to the operation of our pipelines, terminals, processing facilities and other operations. Our technology infrastructure and information systems are subject to damage or interruption from a number of potential sources including unauthorized intrusions, cyber-attacks, software viruses or other malware, natural disasters, power failures, employee error or malfeasances and other events. No cybersecurity or emergency recovery processes is failsafe, and if our safeguards fail or our data or technology infrastructure is compromised, the safety and efficiency of our operations could be materially harmed, our reputation could suffer, and we could face additional costs, liabilities, and costly legal challenges, including those involving privacy of customer data. Finally, legislation and regulation relating to cyber-security threats could impose additional requirements on our operations.

Tesoro is in the process of completing an enterprise resource planning project which aims to simplify business processes by implementing a standardized and scalable technology platform. Large information systems and business process transformations such as this one are complex and require significant investments in system software, business process development and employee resources. Our business and results of operations may be adversely affected if Tesoro experiences operating problems, scheduling delays, cost overages or service limitations.

**Our expansion of existing assets and construction of new assets may not increase revenue and will be subject to regulatory, environmental, political, legal and economic risks, which could adversely affect our operations and financial condition.**

We continue to evaluate opportunities for organic expansion projects and the construction of additional assets, such as our compression projects in the Uinta and Vermillion basins, our terminal expansions, and our pipeline connections in the Bakken region. The expansion or construction of new pipelines, processing plants or terminals involves numerous regulatory,

environmental, political and legal uncertainties, most of which are beyond our control. For example, some pipeline construction projects have faced nationwide protests that have halted and delayed construction. If we are targeted for protests, it could materially affect our ability to carry out our capital projects. Construction is also impacted by the availability of specialized contractors and laborers and the price and demand for materials. If we undertake these projects, they may not be completed on schedule, at the budgeted cost or at all. Moreover, we may not receive sufficient long-term contractual commitments from customers to provide the revenue needed to support such projects and we may be unable to negotiate acceptable interconnection agreements with third-party pipelines to provide destinations for increased throughput. Even if we receive such commitments or make such interconnections, we may not realize an increase in revenue for an extended period of time. We may also construct facilities to capture anticipated future growth in production in a region in which such growth does not materialize, resulting in less than anticipated throughput and a failure to achieve our expected investment return, which could adversely affect our results of operations and financial condition and our ability to make distributions to our unitholders.

**Our pipelines are subject to state regulation that could materially and adversely affect our operations and cash flows.**

In addition to safety and environmental regulations, certain of our pipelines are also subject to non-discriminatory take requirements and complaint-based state regulation with respect to rates and terms and conditions of service. State and local regulation may cause us to incur additional costs or limit our operations and may prevent us from choosing the customers to which we provide service, any or all of which could materially and adversely affect our operations and revenue.

**Pipeline rate regulation, changes to pipeline rate-making rules, or a successful challenge to the pipeline rates we charge may reduce our revenues and the amount of cash we generate.**

The FERC regulates the tariff rates for interstate movements and state regulatory authorities regulate the tariff rates for intrastate movements on our crude oil, refined product, natural gas, and NGLs pipeline systems. The regulatory agencies periodically implement new rules, regulations and terms and conditions of services subject to their jurisdiction. New initiatives or orders may adversely affect the rates charged for our services.

The FERC's primary rate-making methodology is currently price-indexing; if the methodology changes, the new methodology could result in tariffs that generate lower revenues and cash flow. The indexing method allows a pipeline to increase its rates based on a percentage change in the producer price index for finished goods and is not based on pipeline-specific costs. If the index falls, we will be required to reduce our rates that are based on the FERC's price indexing methodology if they exceed the new maximum allowable rate. In addition, changes in the index might not be large enough to fully reflect actual increases in our costs. The FERC's rate-making methodologies may limit our ability to set rates based on our true costs or may delay the use of rates that reflect increased costs. Any of the foregoing could adversely affect our revenues and cash flow.

If a party with an economic interest were to file either a protest of our proposal for increased rates or a complaint against our existing tariff rates, or the if FERC or a state regulatory agency were to initiate an investigation of our existing rates, then our rates could be subject to detailed review. If our present rates are challenged by a shipper, or if our proposed rate increases were found to be in excess of levels justified by our cost of service, the FERC or a state regulatory agency could order us to reduce our rates. If our existing rates were found to be in excess of our cost of service, we could be ordered to reduce our rates prospectively and refund the excess we collected for as far back as two years prior to the date of the filing of a FERC complaint challenging the rates. Refunds could also be ordered for intrastate rates, but the refund periods vary under state laws. If any challenge to committed intrastate rates for priority service on our High Plains Pipeline tariffs were successful, Tesoro's minimum volume commitment under our High Plains Pipeline intrastate Transportation Services Agreement could be invalidated, and the intrastate volumes shipped on our High Plains Pipeline would be at the lower uncommitted tariff rate. Any such reductions may lower revenues and cash flows if additional volumes and / or capacity are unavailable to offset such rate reductions, adversely affecting our financial position, cash flows, and results of operations.

We cannot guarantee that the jurisdictional status of transportation on our pipelines and related facilities will remain unchanged. Should circumstances change, then current non-FERC jurisdictional transportation could be found to be FERC-jurisdictional. In that case, the FERC's ratemaking methodologies may limit our ability to set rates based on our actual costs, delay the use of rates that reflect increased costs, and subject us to potentially burdensome and expensive operational, reporting and other requirements. In addition, the provisions of our High Plains Pipeline Transportation Services Agreement regarding our agreement to provide, and Tesoro's agreement to purchase, certain crude oil volume losses could be viewed as a preference to Tesoro and could result in negation of that provision and possible penalties.

**A change in our natural gas-gathering assets, or a change in FERC policy, could increase regulation of our natural gas-gathering assets, which could materially and adversely affect our financial condition, results of operations and cash flows.**

Natural gas gathering facilities are expressly exempted from the FERC's jurisdiction under the Natural Gas Act ("NGA"). Although the FERC has not made any formal determinations with respect to all of our natural gas-gathering facilities we believe that our natural gas gathering pipelines meet the traditional tests that the FERC has used to determine if a pipeline is a gathering pipeline, and are therefore not subject to the FERC's jurisdiction. The distinction between FERC-regulated transmission services and federally unregulated gathering services has been the subject of substantial litigation and, over time, the FERC's policy for determining which facilities it regulates has changed. In addition, the distinction between FERC-regulated transmission facilities, on the one hand, and gathering facilities, on the other, is a fact-based determination made by the FERC on a case-by-case basis. If the FERC were to consider the status of an individual facility and properly determine that the facility or services provided by it are subject to regulation by the FERC under the NGA or the Natural Gas Policy Act of 1978 (the "NGPA"), then such regulation could decrease revenue, increase operating costs and, depending upon the facility in question, adversely affect our results of operations and cash flows. In addition, if any of our facilities were found to have provided services or otherwise operated in violation of the NGA or NGPA, this could result in the imposition of civil penalties, a requirement to return certain profits (including charges collected for such service in excess of the rate established by the FERC), loss of the ability to charge market-based rates for FERC jurisdictional services and enjoinment from engaging in certain future activities, any of which could negatively impact our business.

We own an interstate gas pipeline company, Rendezvous Pipeline, which is regulated by the FERC as a transmission pipeline under the NGA. The FERC has approved market-based rates for Rendezvous Pipeline allowing it to charge rates that customers will accept. The FERC has also established rules, policies and practices across the range of its natural gas regulatory activities, including, for example, policies on open access transportation, construction of new facilities, market transparency, market manipulation, ratemaking, capacity release, segmentation and market center promotion, which both directly and indirectly affect our business, and could materially and adversely affect our operations and revenues.

**If Tesoro or other customers satisfy only their minimum obligations under our commercial agreements, or if we are unable to renew or extend, the various commercial agreements we have, our business, financial condition, results of operations, and ability to make distributions to our unitholders could be adversely impacted.**

Our commercial agreements require Tesoro and certain third-party customers to provide us with minimum throughput volumes at our terminals and on certain pipelines, but they are not obligated to use our services with respect to volumes of crude oil, natural gas or refined products in excess of the minimum volume commitments. Nothing prohibits Tesoro or other customers from utilizing third-party terminals and pipelines to handle volumes above the minimum committed volumes. At certain of our locations, third-party terminals and pipelines may be able to offer services at more competitive rates or on a more reliable basis. In addition, the initial terms of Tesoro's obligations under those agreements range from five to ten years. If Tesoro or other customers fail to use our facilities and services after expiration of those agreements and we are unable to generate additional revenues from third parties, our ability to make cash distributions to unitholders may be reduced.

**If we are unable to diversify our customer base, or if Tesoro or one of our significant customers does not satisfy its obligations under our agreements or significantly reduces the volumes we are hired to transport, process or store, our revenues would decline and our financial condition, results of operations, cash flows and ability to make distributions to our unitholders would be adversely affected.**

Our two largest customers, Tesoro and QEP Resources, accounted for 72% of our total revenues in the year ended December 31, 2016. We expect to derive a significant amount of our revenues from Tesoro for the foreseeable future and more than half of anticipated 2017 revenues are expected from our top two customers (including Tesoro). This customer concentration makes us subject to the risk of nonpayment, nonperformance, re-negotiation of terms or non-renewal by these major customers under our commercial agreements. Furthermore, any event in our areas of operation or otherwise that materially and adversely affects the financial condition, results of operations or cash flows of one of these major customers may adversely affect our ability to sustain or increase cash distributions to our unitholders. Accordingly, we are indirectly subject to the operational and business risks of these major customers (including Tesoro), some of which are related to the following:

- the risk of contract cancellation, non-renewal or failure to perform by their customers;
- disruptions due to equipment interruption or failure at their facilities or at third-party facilities on which their business is dependent;
- the timing and extent of changes in commodity prices and demand for their refined products, natural gas and NGLs, and the availability and market price of crude oil and other refinery feedstocks;

- their ability to remain in compliance with the terms of their outstanding indebtedness;
- changes in the cost or availability of third-party pipelines, terminals and other means of delivering and transporting crude oil, natural gas and NGLs, feedstocks and refined products;
- state and federal environmental, economic, health and safety, energy and other policies and regulations and any changes in those policies and regulations;
- environmental incidents and violations and related remediation costs, fines and other liabilities; and
- changes in crude oil, natural gas, NGLs and refined product inventory levels and carrying costs.

Our ability to increase our non-Tesoro third-party revenue is subject to numerous factors beyond our control, including competition from other logistics providers, and the extent to which we have available capacity when potential customers require it. For example, our High Plains System may be unable to compete effectively with existing and future third-party crude oil gathering systems and trucking operations in the Bakken Region. Our ability to obtain third-party customers on our High Plains System is also dependent on our ability to make further inlet connections from and outlet connections to third-party facilities and pipelines. There are also competitors in the area of our natural gas gathering and processing facilities, and we may be unable to compete effectively in obtaining new supplies of gas for these operations.

We may not be able to attract material third-party service opportunities. Our efforts to attract new customers may be adversely affected by our relationship with Tesoro, our desire to provide services pursuant to fee-based contracts and Tesoro's operational requirements with respect to our assets. Our potential customers may prefer to obtain services under other forms of contractual arrangements, under which we could be required to assume direct commodity exposure.

**Some of the gathering and processing agreements of the Rockies Natural Gas Business contain provisions that may reduce the cash flow stability that the agreements were designed to achieve.**

Several of the gathering and processing agreements of the natural gas and crude oil gathering and processing operations contain minimum volume commitments that are designed to generate stable cash flows to the Rockies Natural Gas Business, while also minimizing direct commodity price risk. Under these minimum volume commitments, the customers of the Rockies Natural Gas Business agree to ship a minimum volume of natural gas on its gathering systems or to process a minimum volume of natural gas at its processing complexes over certain periods during the term of the agreement. In addition, certain of the gathering and processing agreements of the Rockies Natural Gas Business also include an aggregate minimum volume commitment over the total life of the agreement. In these cases, once a customer achieves its aggregate minimum volume commitment, any remaining future minimum volume commitments will terminate and the customer will then simply pay the applicable gathering or processing rate multiplied by the actual throughput volumes shipped or volumes processed.

If a customer's actual throughput volumes are less than its minimum volume commitment for the applicable period, it must make a deficiency payment at the end of the applicable period. The amount of the deficiency payment is based on the difference between the actual throughput volume shipped or processed for the applicable period and the minimum volume commitment for the applicable period, multiplied by the applicable gathering or processing fee. To the extent that a customer's actual throughput volumes or volumes processed are above or below its minimum volume commitment for the applicable period, several of the gathering and processing agreements with minimum volume commitments contain provisions that allow the customer to use the excess volumes or the shortfall payment to credit against future excess volumes or future shortfall payments in subsequent periods. Under certain circumstances, some or all of these provisions can apply in combination with one another. It is possible that the combined effect of these mechanisms could reduce revenue or cash flows from one or more customers in a given period.

**We do not own all of the land on which our pipelines, processing plants and terminals are located, which could disrupt our operations.**

We do not own all of the land on which our pipelines, terminals and natural gas gathering and processing assets are located, but rather obtain the rights to construct and operate our pipelines, processing plants and terminals on land owned by third parties and governmental agencies for a specific period of time. Therefore, we are subject to the possibility of more burdensome terms and increased costs to retain necessary land use if our leases and rights-of-way lapse or terminate or it is determined that we do not have valid leases or rights-of-way. Our loss of these rights, including loss through our inability to renew leases or right-of-way contracts on satisfactory terms or at all, could have a material adverse effect on our business, results of operations, financial condition and ability to make cash distributions to our unitholders.

**Certain of our crude oil and natural gas gathering facilities are located on Native American tribal lands and are subject to various federal and tribal approvals and regulations, which may increase our costs and delay or prevent our efforts to conduct planned operations.**

Various federal agencies within the U.S. Department of the Interior, particularly the Bureau of Indian Affairs, Bureau of Land Management, and the Office of Natural Resources Revenue, along with each Native American tribe, regulate natural gas and oil operations on Native American tribal lands, including drilling and production requirements and environmental standards. In addition, each Native American tribe is a sovereign nation having the right to enforce laws and regulations and to grant approvals independent from federal, state and local statutes and regulations. These tribal laws and regulations include various taxes, fees, requirements to employ Native American tribal members and other conditions that apply to operators and contractors conducting operations on Native American tribal lands. Persons conducting operations on tribal lands are generally subject to the Native American tribal court system. In addition, if our relationships with any of the relevant Native American tribes were to deteriorate, we could face significant risks to our ability to continue operations on Native American tribal lands. One or more of these factors may increase our cost of doing business on Native American tribal lands and impact the viability of, or prevent or delay our ability to conduct our natural gas and oil gathering and transmission operations on such lands.

**Increases in interest rates could adversely impact our unit price, our ability to issue equity or incur debt for acquisitions or other purposes, and our ability to make cash distributions at our intended levels.**

Our use of debt directly exposes us to interest rate risk. Variable-rate debt, such as borrowings under our Revolving Credit Facility, exposes us to short-term changes in market rates that impact our interest expense. Fixed rate debt, such as our senior notes, exposes us to changes in the fair value of our debt due to changes in market interest rates. Fixed rate debt also exposes us to the risk that we may need to refinance maturing debt with new debt at higher rates, or that we may be obligated to rates higher than the current market.

As with other yield-oriented securities, our unit price will be impacted by our cash distributions and the implied distribution yield. The distribution yield is often used by investors to compare and rank yield-oriented securities for investment decision-making purposes. Therefore, changes in interest rates, either positive or negative, may impact the yield requirements of investors who invest in our units, and a rising interest rate environment could have an adverse impact on our unit price and our ability to issue equity or incur debt for acquisitions or other purposes and to make cash distributions at our intended levels.

**Our level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our debt obligations.**

As of December 31, 2016, we had $4.1 billion aggregate principal amount of debt outstanding. Our indebtedness could adversely affect our business, financial condition, results of operations and cash flows, including, without limitation, impairing our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or other general partnership purposes or our ability to make distributions to our unitholders. In addition, we will have to use a substantial portion of our cash flow to pay principal, premium (if any for our Senior Notes) and interest on the Senior Notes and our other indebtedness, which will reduce the funds available to us for other purposes. Our level of indebtedness will also make us more vulnerable to economic downturns and adverse industry conditions, and may compromise our ability to capitalize on business opportunities and to react to competitive pressures as compared to our competitors.

**Tesoro's indebtedness and credit ratings could adversely affect our business, credit rating, ability to obtain credit in the future and ability to make cash distributions to unitholders.**

Tesoro must devote a portion of its cash flows from operating activities to service its indebtedness, and therefore cash flows may not be available for use in pursuing its growth strategy. Furthermore, in the event that Tesoro were to default under certain of its debt obligations, there is a risk that Tesoro's creditors would attempt to assert claims against our assets during the litigation of their claims against Tesoro. The defense of any such claims could be costly and could materially impact our financial condition, even absent any adverse determination. In the event these claims were successful, our ability to meet our obligations to our creditors, make distributions and finance our operations could be materially adversely affected.

Credit rating agencies considered, and are likely to continue considering, Tesoro's debt ratings when assigning ours because of Tesoro's ownership interest in us, the significant commercial relationships between Tesoro and us, and our reliance on Tesoro for a substantial portion of our revenues. If one or more credit rating agencies were to downgrade the outstanding indebtedness of Tesoro, we could experience an increase in our borrowing costs or difficulty accessing the capital markets. Such a development could adversely affect our ability to grow our business and to make cash distributions to our unitholders.

**We may not be able to obtain funding on acceptable terms or at all because of volatility and uncertainty in the credit and capital markets. This may hinder or prevent us from meeting our future capital needs.**

The domestic and global financial markets and economic conditions could be disrupted and are volatile from time to time due to a variety of factors, including crude oil and natural gas prices, geoeconomic and geopolitical issues, unemployment rates, weak economic conditions and uncertainty in the financial services sector. In addition, there are fewer investors and lenders willing to invest in the debt and equity capital markets in issuances by master limited partnerships than there are for more traditionally structured corporations. As a result, the cost of raising capital in the debt and equity capital markets could increase substantially or the availability of funds from these markets could diminish. The cost of obtaining funds from the credit markets may increase as many lenders and institutional investors increase interest rates, enact tighter lending standards, refuse to refinance existing debt on similar terms or at all and reduce, or in some cases cease, to provide funding to borrowers.

In addition, lending counterparties under existing revolving credit facilities and other debt instruments may be unwilling or unable to meet their funding obligations. Due to these factors, we cannot be certain that new debt or equity financing will be available on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, we may be unable to execute our growth strategy, complete future acquisitions or construction projects or take advantage of other business opportunities, any of which could have a material adverse effect on our revenues and results of operations.

**Our distributions may fluctuate, and we may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses, including cost reimbursements to our general partner and its affiliates, to enable us to pay quarterly distributions to our unitholders at current levels or to increase our quarterly distributions in the future.**

The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which fluctuates from quarter to quarter based on, among other things, the following:

- the volume of crude oil, natural gas, NGLs and refined products that we handle;
- the tariff rates with respect to volumes we transport on our pipelines (including whether such tariffs are for long-haul or short-haul segments);
- the terminalling, trucking, processing and storage fees with respect to non-pipeline volumes we handle;
- the mix of gathering, processing, transportation and storage services we provide; and
- prevailing economic conditions.

In addition, the actual amount of cash we have available for distribution will also depend on other factors, some of which are beyond our control, including:

- the amount of our operating expenses and general and administrative expenses, including reimbursements to or from Tesoro with respect to those expenses and payment of an annual corporate services fee to Tesoro;
- the amount of our capital expenditures;
- the volatility in capital markets at the time of new debt or equity issuances;
- the timing of distributions on new unit issuances relating to acquisitions;
- the cost of acquisitions, if any;
- our debt service requirements and other liabilities;
- fluctuations in our working capital needs;
- our ability to borrow funds and access capital markets;
- restrictions contained in our credit facilities and other debt service requirements;
- an uninsured catastrophic loss;
- the amount of cash reserves established by our general partner; and
- other business risks impacting our cash levels.

The amount of cash we have available for distribution to our unitholders depends primarily on our cash flow rather than on our profitability. As a result, we may make cash distributions during periods when we record net losses, and we may not make cash distributions during periods when we record net earnings.

**Our debt obligations and restrictions in our Revolving Credit Facility, Dropdown Credit Facility, senior notes and any future financing agreements could adversely affect our business, financial condition, results of operations, ability to make distributions to our unitholders and the value of our units.**

We are dependent upon the earnings and cash flow generated by our operations to meet our debt service obligations and to allow us to make cash distributions to our unitholders.

Funds available for our operations, future business opportunities and distributions to unitholders will be reduced by that portion of our cash flow required to make interest payments on our debt. Furthermore, the provisions of our Revolving Credit Facility, Dropdown Credit Facility and senior notes, and any other debt we incur, may restrict our ability to obtain future financing and our ability to expand business activities or pursue attractive business opportunities. They may also restrict our flexibility in planning for, and reacting to, changes in business conditions. Our debt obligations contain covenants that require us to maintain certain interest coverage and leverage ratios. Our Revolving Credit Facility, Dropdown Credit Facility and senior notes also contain covenants that, among other things, limit or restrict our ability (as well as the ability of our subsidiaries) to:

- make certain cash distributions;
- incur certain indebtedness;
- incur certain liens;
- make certain investments;
- dispose of assets in excess of certain amounts;
- engage in certain mergers or consolidations and transfers of assets; and
- enter into certain transactions with affiliates.

If our operating results are not sufficient to service any future indebtedness, we may reduce distributions, reduce or delay our business activities, investments or capital expenditures, sell assets or issue equity. We may not be able to complete any of these actions on satisfactory terms or at all. Furthermore, a failure to comply with the provisions of our debt obligations could result in an event of default, which could enable our lenders to declare the outstanding principal of that debt, together with accrued interest, to be immediately due and payable. If we were unable to repay the accelerated amounts, our lenders could proceed against the collateral granted to them to secure such debt. If the payment of our debt is accelerated, defaults under any other debt instruments we may have could be triggered, and our assets may be insufficient to repay such debt in full. As a result, the holders of our units could experience a partial or total loss of their investment.

**Our business may be negatively impacted by work stoppages, slowdowns or strikes by TLGP or Tesoro employees.**

Any work stoppage by Tesoro employees who provide services to us pursuant to the Secondment and Logistics Services Agreement (the "Secondment Agreement") or the Amended Omnibus Agreement may have a negative impact on our business. Additionally, Tesoro is a significant customer and any strike action or work stoppage at any of Tesoro's facilities may result in us only receiving the minimum volume commitments under certain contracts, which could negatively affect our results of operations, cash flows and financial condition.

**We may be unsuccessful in integrating the operations of the assets we have acquired or may acquire in the future, or in realizing all or any part of the anticipated benefits of any such acquisitions.**

From time to time, we evaluate and acquire assets and businesses that we believe complement our existing assets and businesses. The acquisition components of our growth strategy depend on the successful integration of acquisitions. We face numerous risks and challenges to successful integration of acquired businesses, including the following:

- the potential for unexpected costs, delays and challenges that may arise in integrating acquisitions into our existing business;
- limitations on our ability to realize the expected cost savings and synergies from an acquisition;
- challenges related to integrating acquired operations that have management teams and company cultures that differ from our own;
- challenges related to the integration of businesses that operate in new geographic areas, including difficulties in identifying and gaining access to customers in new markets;
- difficulties of managing operations outside of our existing core business, which may require development of additional skills and competencies; and

- discovery of previously unknown liabilities following an acquisition with the acquired business or assets for which we cannot receive reimbursement under applicable indemnification provisions.

**Tesoro may suspend, reduce or terminate its obligations under our commercial agreements and our Secondment Agreement in some circumstances, which would have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to unitholders.**

Our commercial agreements and Secondment Agreement with Tesoro include provisions that permit Tesoro to suspend, reduce or terminate its obligations under the applicable agreement if certain events occur. These events include a material breach of the agreement by us and certain force majeure events that would prevent us from performing required services under the commercial agreements. With respect to many of our facilities, these events also include the possibility that Tesoro may decide to permanently or indefinitely suspend refining operations at one or more of its refineries. Tesoro has the discretion to make such decisions notwithstanding the fact that they may significantly and adversely affect us.

In the event of a force majeure event under the commercial agreements, Tesoro's and our obligations under these agreements will be proportionately reduced or suspended to the extent that we are unable to perform. As defined in our commercial agreements and in the Secondment Agreement, force majeure events include any acts or occurrences that prevent services from being performed under the applicable agreement, such as:

- acts of God, fires, floods or storms;
- compliance with orders of courts or any governmental authority;
- explosions, wars, terrorist acts, riots, strikes, lockouts or other industrial disturbances;
- accidental disruption of service;
- breakdown of machinery, storage tanks or pipelines and inability to obtain or unavoidable delay in obtaining material or equipment; and
- similar events or circumstances, so long as such events or circumstances are beyond our reasonable control and could not have been prevented by our due diligence.

Any of these events could result in our no longer being required to transport or distribute Tesoro's minimum throughput commitments on our pipelines or terminals, respectively, and in Tesoro no longer being required to pay the full amount of fees that would have been associated with its minimum throughput commitments. These actions could result in a reduction or suspension of Tesoro's obligations under one or more of our commercial agreements, which would have a material adverse effect on our financial condition, results of operations, cash flows and ability to make distributions to unitholders.

## RISKS RELATING TO OUR PARTNERSHIP STRUCTURE

**Tesoro owns our general partner, which has sole responsibility for conducting our business and managing our operations. Our general partner has limited fiduciary duties, and it and its affiliates, including Tesoro, may have conflicts of interest with us and they may favor their own interests to the detriment of us and our common unitholders.**

As of February 15, 2017, Tesoro and its affiliates own an approximate 34% interest in us, including a 2.0% general partner interest, and control our general partner. Although our general partner has a fiduciary duty to manage us in a manner that is beneficial to us and our unitholders, the directors and officers of our general partner have a fiduciary duty to manage our general partner in the manner that is beneficial to its owner, Tesoro. Conflicts of interest may arise between Tesoro and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. In resolving these conflicts, the general partner may favor its own interests and the interests of its affiliates, including Tesoro, over the interests of our common unitholders. These conflicts include the following situations:

- Neither our partnership agreement nor any other agreement requires Tesoro to pursue a business strategy that favors us or utilizes our assets, which could involve decisions by Tesoro to increase or decrease refinery production, connect our pipeline systems to third-party delivery points, shut down or reconfigure a refinery, or pursue and grow particular markets. Tesoro's directors and officers have a fiduciary duty to make these decisions in the best interests of the stockholders of Tesoro;
- Tesoro, as our largest customer, may have an economic incentive to cause us to not seek higher tariff rates, trucking fees or terminalling fees, even if such higher rates or fees would reflect rates and fees that could be obtained in arm's-length, third-party transactions;

- Tesoro may be constrained by the terms of its debt instruments from taking actions, or refraining from taking actions, that may be in our best interests;
- Our partnership agreement replaces the fiduciary duties that would otherwise be owed by our general partner with contractual standards governing its duties, limiting its liability and restricting the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty;
- Except in limited circumstances, our general partner has the power and authority to conduct our business without unitholder approval;
- Our general partner determines the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities and the creation, reduction or increase of cash reserves, each of which can affect the amount of cash that is distributed to our unitholders;
- Our general partner determines the amount and timing of many of our cash expenditures and whether a cash expenditure is classified as an expansion capital expenditure, which does not reduce operating surplus. This determination can affect the amount of cash that is distributed to our unitholders and to our general partner and the amount of adjusted operating surplus in any given period;
- Our general partner determines which costs incurred by it are reimbursable by us;
- Our general partner may cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make incentive distributions;
- Our partnership agreement permits us to classify up to $30 million as operating surplus, even if it is generated from asset sales, non-working capital borrowings or other sources that would otherwise constitute capital surplus. This cash may be used to fund distributions to our general partner in respect of the general partner interest or the incentive distribution rights;
- Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;
- Our general partner has limited and may continue to limit its liability regarding our contractual and other obligations;
- Our general partner may exercise its right to call and purchase all of the common units not owned by it and its affiliates if it and its affiliates own more than 75% of the common units, which could require unitholders to sell their common units at an undesirable time and price, potentially resulting in no return on their investment or a tax liability on the sale of their units;
- Our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates, including our commercial agreements with Tesoro;
- Our general partner decides whether to retain separate counsel, accountants, or others to perform services for us; and
- Our general partner may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to our general partner's incentive distribution rights without the approval of the conflicts committee of our Board, which we refer to as our conflicts committee, or our unitholders. This election may result in lower distributions to our common unitholders in certain situations.

Under the terms of our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, does not apply to our general partner or any of its affiliates, including its executive officers, directors and owners. Other than as provided in our Amended Omnibus Agreement with Tesoro, any such person or entity that becomes aware of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us will not have any duty to communicate or offer such opportunity to us. Any such person or entity will not be liable to us or to any limited partner for breach of any fiduciary duty or other duty by reason of the fact that such person or entity pursues or acquires such opportunity for itself, directs such opportunity to another person or entity or does not communicate such opportunity or information to us. This may create actual and potential conflicts of interest between us and affiliates of our general partner and result in less than favorable treatment of us and our unitholders.

**Our partnership agreement requires that we distribute all of our available cash, which could limit our ability to grow and make acquisitions. Our general partner's discretion in establishing cash reserves may also reduce the amount of cash available for distribution to unitholders.**

Our partnership agreement requires that we distribute all of our available cash to our unitholders. As a result, we rely primarily upon external financing sources, including commercial bank borrowings and the issuance of debt and equity securities, to fund our acquisitions and expansion capital expenditures. Therefore, to the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow. In addition, because we distribute all of our available cash,

our growth may not be as fast as that of businesses that reinvest their available cash to expand ongoing operations. To the extent we issue additional units in connection with any acquisitions or expansion capital expenditures, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our per unit distribution level. The incurrence of additional commercial borrowings or other debt to finance our growth strategy would increase interest expense, which, in turn, may impact the available cash that we have to distribute to our unitholders.

The partnership agreement also requires our general partner to deduct from operating surplus cash reserves that it determines are necessary to fund our future operating expenditures. In addition, the partnership agreement permits the general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party, or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash available for distribution to unitholders.

**Our partnership agreement limits our general partner's fiduciary duties to holders of our common units and restricts the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of duty.**

Our partnership agreement contains provisions that modify and reduce the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner, or otherwise free of fiduciary duties to us and our unitholders.

Additionally, our partnership agreement contains provisions that restrict the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty under state fiduciary duty law.

For example, our partnership agreement:

- provides that whenever our general partner makes a determination or takes, or declines to take, any other action in its capacity as our general partner, our general partner is required to make such determination, or take or decline to take such other action, in good faith, and will not be subject to any other or different standard imposed by our partnership agreement, Delaware law, or any other law, rule or regulation, or at equity;
- provides that our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, which requires that it believed that the decision was in, or not opposed to, the best interest of our partnership;
- provides that our general partner and its officers and directors will not be liable for monetary damages to us or our limited partners resulting from any act or omission unless there has been a final and nonappealable judgment entered by a court of competent jurisdiction determining that our general partner or its officers and directors, as the case may be, acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal;
- provides that our general partner will not be in breach of its obligations under the partnership agreement or its fiduciary duties to us or our limited partners if a transaction with an affiliate or the resolution of a conflict of interest is not approved by our conflicts committee or approved by a vote of a majority of outstanding common units, but is entered into in good faith by our general partner and is on terms no less favorable to us than those generally being provided to or available from unrelated third parties or fair and reasonable to us, taking into account the totality of the relationships among the parties involved; and
- provides that in resolving conflicts of interest, it is presumed that in making its decision the general partner acted in good faith and in any proceeding brought by or on behalf of any limited partner or us, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

By purchasing a common unit, a unitholder is treated as having consented to the provisions in the partnership agreement, including the provisions discussed above.

**Cost reimbursements and fees due our general partner and its affiliates for services provided are substantial and reduce our cash available for distribution to unitholders.**

Under our partnership agreement, we are required to reimburse our general partner 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 or our Secondment Agreement, our general partner determines the amount of these expenses. Under the terms of the Amended Omnibus Agreement, we are required to pay Tesoro an annual corporate services fee, currently

$11 million, for the provision of various centralized corporate services. Under the terms of our Secondment Agreement, we pay Tesoro a net annual service fee, currently $6 million, for services performed by field-level employees at the majority of the facilities acquired from Tesoro. 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. Our general partner and its affiliates may also provide us other services for which we will be charged fees as determined by our general partner. Payments to our general partner and its affiliates are substantial and reduce the amount of available cash for distribution to unitholders.

**Unitholders have very limited voting rights and, even if they are dissatisfied, their ability to remove our general partner without its consent is limited.**

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management's decisions regarding our business. The Board is chosen by the members of our general partner. Tesoro Corporation is currently the sole member of our general partner. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, their ability to remove our general partner is limited. The vote of the holders of at least 66 2/3% of all outstanding common units is required to remove our general partner. Our general partner and its affiliates currently own approximately 33% of our outstanding common units. As a result of these limitations, the price at which our common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Unitholders' voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner, its affiliates, their transferees, and persons who acquired such units with the prior approval of our Board, cannot vote on any matter.

Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

**Our general partner interest, the control of our general partner or the incentive distribution rights of our general partner may be transferred to a third party without unitholder consent.**

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, there is no restriction in the partnership agreement on the ability of Tesoro to transfer its membership interest in our general partner to a third party. The new partners of our general partner would then be in a position to replace the board of directors and officers of our general partner with their own choices and to control the decisions taken by the board of directors and officers.

Additionally, our general partner may transfer its incentive distribution rights to a third party at any time without the consent of our unitholders. If our general partner transfers its incentive distribution rights to a third party but retains its general partner interest, our general partner may not have the same incentive to grow our partnership and increase quarterly distributions to unitholders over time as it would if it had retained ownership of its incentive distribution rights. Such a transfer could reduce the likelihood of Tesoro accepting offers made by us relating to assets subject to the right of first offer contained in our Amended Omnibus Agreement, as Tesoro would have less of an economic incentive to grow our business, which in turn would impact our ability to grow our asset base.

**We may issue additional units without unitholder approval, which would dilute unitholder interests.**

At any time, we may issue an unlimited number of limited partner interests of any type without the approval of our unitholders. Further, neither our partnership agreement nor our Revolving Credit Facility prohibits the issuance of equity securities that may effectively rank senior to our common units. The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders' proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of our common units may decline.

**Tesoro may sell units in the public or private markets, and such sales could have an adverse impact on the trading price of the common units.**

As of February 15, 2017, Tesoro holds 34,055,042 common units. Additionally, we have agreed to provide Tesoro with certain registration rights. The sale of these units in the public or private markets could have an adverse impact on the price of the common units or on any trading market that may develop.

**Affiliates of our general partner, including Tesoro, may compete with us.**

Tesoro and its affiliates are not restricted from competing with us, except under certain circumstances. Under our Amended Omnibus Agreement, Tesoro and its affiliates generally may not own or operate crude oil or refined products pipelines, terminals or storage facilities in the U.S. that are not within, directly connected to, substantially dedicated to, or otherwise an integral part of, any refinery owned, acquired or constructed by Tesoro. This restriction, however, does not apply to:

- any assets that were owned by Tesoro at the closing of our initial public offering (including replacements or expansions of those assets);
- any assets acquired or constructed by Tesoro to replace one of our assets that no longer provides services to Tesoro due to the occurrence of a force majeure event under one of our commercial agreements with Tesoro that prevents us from providing services under such agreement;
- any asset or business that Tesoro acquires or constructs that has a fair market value of less than $5 million; and
- any asset or business that Tesoro acquires or constructs that has a fair market value of $5 million or more if we have been offered the opportunity to purchase the asset or business for fair market value not later than six months after completion of such acquisition or construction, and we decline to do so.

As a result, Tesoro has the ability to construct assets, which directly compete with our assets so long as they are integral to a refinery owned by Tesoro. The limitations on the ability of Tesoro to compete with us are terminable by either party if Tesoro ceases to control our general partner.

**Unitholders' liability may not be limited if a court finds that unitholder action constitutes control of our business.**

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law, and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some jurisdictions. The unitholder could be liable for our obligations as if he were a general partner if a court or government agency were to determine that:

- we were conducting business in a state but had not complied with that particular state's partnership statute; or
- his right to act with other unitholders to remove or replace the general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute control of our business.

**Unitholders may have liability to repay distributions that were wrongfully distributed to them.**

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to unitholders if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Transferees of common units are liable for the obligations of the transferor to make contributions to the partnership that are known to the transferee at the time of the transfer and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

**Our general partner, or any transferee holding incentive distribution rights, may elect to cause us to issue common units and general partner units to it in connection with a resetting of the target distribution levels related to its incentive distribution rights, without the approval of our conflicts committee or the holders of our common units. This could reduce distributions to holders of our common units.**

Our general partner, or a transferee who receives our general partner's incentive distribution rights, has the right, at any time when it has received distributions on its incentive distribution rights at the highest level to which it is entitled (48.0%, in addition to distributions paid on its 2.0% general partner interest) for each of the prior four consecutive fiscal quarters, to reset the initial target distribution levels at higher levels based on our distributions at the time of the exercise of the reset election. Following a reset election, the minimum quarterly distribution will be adjusted to equal the reset minimum quarterly distribution, and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution.

If our general partner elects to reset the target distribution levels, it will be entitled to receive additional common units and general partner units. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion. It is possible, however, that our general partner could exercise this reset election at a time when it is experiencing, or expects to experience, declines in the cash distributions it receives related to its incentive distribution rights and may, therefore, desire to be issued common units rather than retain the right to receive distributions based on the initial target distribution levels. This risk could be elevated if our incentive distribution rights have been transferred to a third party. As a result, a reset election may cause our common unitholders to experience a reduction in the amount of cash distributions that they would have otherwise received had we not issued new common units and general partner units in connection with resetting the target distribution levels.

**Our unitholders who fail to furnish certain information requested by our general partner or who our general partner, upon receipt of such information, determines are not eligible citizens may not be entitled to receive distributions in kind upon our liquidation and their common units will be subject to redemption.**

Our general partner may require each limited partner to furnish information about his nationality, citizenship or related status. If a limited partner fails to furnish this information within 30 days after a request for the information or our general partner determines after receipt of the information that the limited partner is not an eligible U.S. citizen, the limited partner may be treated as a non-citizen assignee. A non-citizen assignee does not have the right to direct the voting of his units and may not receive distributions in kind upon our liquidation. Furthermore, we have the right to redeem all of the common units of any holder that is not an eligible citizen or fails to furnish the requested information. The redemption price will be paid in cash or by delivery of a promissory note, as determined by our general partner.

**Common units held by persons who are non-taxpaying assignees will be subject to the possibility of redemption.**

To avoid any adverse effect on the maximum applicable rates chargeable to customers by us under FERC regulations, or in order to reverse an adverse determination that has occurred regarding such maximum rate, our partnership agreement gives our general partner the power to amend the agreement. If our general partner determines that we are not being treated as an association taxable as a corporation or otherwise taxable as an entity for U.S. federal income tax purposes, coupled with the tax status (or lack of proof thereof) of one or more of our limited partners, has, or is reasonably likely to have, a material adverse effect on the maximum applicable rates chargeable to customers by us, then our general partner may adopt such amendments to our partnership agreement as it determines are necessary or advisable to obtain proof of the U.S. federal income tax status of our limited partners (and their owners, to the extent relevant) and permit us to redeem the units held by any person whose tax status has or is reasonably likely to have a material adverse effect on the maximum applicable rates or who fails to comply with the procedures instituted by our general partner to obtain proof of the U.S. federal income tax status.

**The New York Stock Exchange ("NYSE") does not require a publicly traded limited partnership like us to comply with certain of its corporate governanc requirements.**

Because we are a publicly traded limited partnership, the NYSE does not require us to have a majority of independent directors on our general partner's board of directors or to establish a compensation committee or a nominating and corporate governance committee. Accordingly, unitholders will not have the same protections afforded to certain corporations that are subject to all of the NYSE corporate governance requirements.

## TAX RISKS TO COMMON UNITHOLDERS

**Our tax treatment depends on our status as a partnership for federal and state income tax purposes. If the Internal Revenue Service ("IRS") were to treat us as a corporation for federal income tax purposes, which would subject us to entity-level taxation, or if we were subjected to a material amount of additional entity-level taxation by individual states, then our cash available for distribution to our unitholders would be substantially reduced.**

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other tax matter affecting us.

It is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. A change in our business or a change in current law could cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to taxation as an entity.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35%, and would likely pay state and local income tax at varying rates. Distributions would generally be taxed again as corporate dividends (to the extent of our current and accumulated earnings and profits), and no income, gains, losses, deductions, or credits would flow through to unitholders. Because a tax would be imposed upon us as a corporation, our cash available for distribution to unitholders would be substantially reduced. Therefore, if we were treated as a corporation for federal income tax purposes, there would be material reduction in the anticipated cash flow and after-tax return to our unitholders, likely causing a substantial reduction in the value of our common units.

Additionally, changes in current state law may subject us to additional entity-level taxation by individual states. Because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. Imposition of any such taxes may substantially reduce the cash available for distribution to unitholders.

Our partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, the minimum quarterly distribution amount and the target distribution amounts may be adjusted to reflect the impact of that law on us.

**The tax treatment of publicly traded partnerships could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.**

The present U.S. federal income tax treatment of publicly traded partnerships, including us, may be modified by administrative, legislative or judicial interpretation at any time. Any modification to the U.S. federal income tax laws and interpretations thereof may or may not be applied retroactively and could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation, affect or cause us to change our business activities, affect the tax considerations of an investment in us and change the character or treatment of portions of our income. From time to time, members of Congress have proposed and considered substantive changes to the existing U.S. federal income tax laws that would adversely affect the tax treatment of certain publicly traded partnerships, including the elimination of partnership tax treatment for publicly traded partnerships. For example, on May 5, 2015, the U.S. Treasury Department and the IRS released proposed regulations regarding qualifying income under Section 7704(d)(1)(E) of the Internal Revenue Code. On January 24, 2017, final regulations were published. We believe the income that we treat as qualifying income satisfies the requirements for qualifying income under both the proposed regulations and the final regulations just published. However, we are unable to predict whether any future changes to the U.S. federal income tax laws will be enacted that could adversely affect us.

**Our unitholders' share of our income will be taxable to them for federal income tax purposes even if they do not receive any cash distributions from us.**

Because a unitholder will be treated as a partner to whom we will allocate taxable income, which could be different in amount than the cash we distribute, a unitholder's allocable share of our taxable income will be taxable to it, which may require the payment of federal income taxes and, in some cases, state and local income taxes, on its share of our taxable income even if it receives no cash distributions from us. Our unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from that income.

**If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted and the cost of any IRS contest will reduce our cash available for distribution to our unitholders.**

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes. The IRS may adopt positions that differ from the positions we take, and the IRS's positions may ultimately be sustained. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we take and such positions may not ultimately be sustained. Any contest with the IRS, and the outcome of any IRS contest, may have a materially adverse impact on the market for our common units and the price at which they trade. In addition, our costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

**Tax gain or loss on the disposition of our common units could be more or less than expected.**

A unitholder that sells common units, will recognize a gain or loss for federal income tax purposes equal to the difference between the amount realized and the tax basis in those common units. Because distributions in excess of the unitholder's allocable share of our net taxable income decrease the tax basis in these common units, the amount, if any, of such prior excess distributions with respect to the common units sold will, in effect, become taxable income if sold at a price greater than the tax basis , even if the price received is less than the original cost. Furthermore, a substantial portion of the amount realized on any sale of common units, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, if the partnership has nonrecourse liabilities, the amount realized includes a unitholder's share of our nonrecourse liabilities. In that case, a unitholder selling common units may incur a tax liability in excess of the amount of cash received from the sale.

**Tax-exempt entities and non-U.S. persons face unique tax issues from owning our common units that may result in adverse tax consequences to them.**

Investment in common units by tax-exempt entities, such as employee benefit plans and individual retirement accounts ("IRAs"), and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file federal income tax returns and pay tax on their share of our taxable income. A tax-exempt entity or a non-U.S. person should consult a tax advisor before investing in our common units.

**We treat each purchaser of common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.**

Because we cannot match transferors and transferees of common units and because of other reasons, we adopt depreciation and amortization positions that may not conform to all aspects of existing U.S. Treasury Regulations ("Treasury Regulations"). A successful IRS challenge to those positions could adversely affect the amount of tax benefits available. It could also affect the timing of these tax benefits or the amount of taxable income from the sale of common units and could have a negative impact on the value of our common units.

**We prorate our items of income, gain, loss and deduction for federal income tax purposes between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.**

We prorate our items of income, gain, loss and deduction for federal income tax purposes between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The use of this proration method may not be permitted under existing Treasury Regulations. If the IRS were to challenge this method or new Treasury Regulations were issued, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders.

**A unitholder whose common units are loaned to a short seller to affect a short sale of common units may be considered as having disposed of those common units. If so, the unitholder would no longer be treated for federal income tax purposes as a partner with respect to those common units during the period of the loan and may recognize gain or loss from the disposition.**

Because a unitholder whose common units are loaned to a short seller to effect a short sale of common units may be considered as having disposed of the loaned common units, the unitholder may no longer be treated for federal income tax purposes as a partner with respect to those common units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those common units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those common units could be fully taxable as ordinary income. Our unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to consult a tax advisor to discuss whether it is advisable to modify any applicable brokerage account agreements to prohibit their brokers from loaning their common units.

**We will adopt certain valuation methodologies and monthly conventions for federal income tax purposes that may result in a shift of income, gain, loss and deduction between our general partner and our unitholders. The IRS may challenge this treatment, which could adversely affect the value of the common units.**

When we issue additional units or engage in certain other transactions, we will determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our general partner. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and our general partner, which may be unfavorable to such unitholders. Moreover, under our valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of taxable income, gain, loss and deduction between our general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It could also affect the amount of taxable gain from our unitholders' sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders' tax returns without the benefit of additional deductions.

**The sale or exchange of 50% or more of our capital and profits interests during any 12-month period will result in the termination of our partnership for federal income tax purposes.**

We will be considered to have technically terminated our partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. For purposes of determining whether the 50% threshold has been met, multiple sales of the same interest will be counted only once. Our technical termination would, among other things, result in the closing of our taxable year for all unitholders, which would result in us filing two tax returns (and our unitholders could receive two Schedules K-1 if relief was not available, as described below) for one fiscal year and could result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may also result in more than 12 months of our taxable income or loss being includable in the unitholder's taxable income for the year of termination. Our termination currently would not affect our classification as a partnership for federal income tax purposes, but instead we would be treated as a new partnership for tax purposes. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a termination occurred. The IRS has recently announced a publicly traded partnership technical termination relief program whereby, if a publicly traded partnership that technically terminated requests publicly traded partnership technical termination relief and such relief is granted by the IRS, among other things, the partnership will only have to provide one Schedule K-1 to unitholders for the year notwithstanding two partnership tax years.

**As a result of investing in our common units, unitholders may become subject to state and local taxes and return filing requirements in jurisdictions where we operate or own or acquire properties.**

In addition to federal income taxes, our unitholders will likely be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we conduct business or control property now or in the future, even if they do not live in any of those jurisdictions. Our unitholders will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these various

jurisdictions. Further, our unitholders may be subject to penalties for failure to comply with those requirements. Many of the states in which we operate currently impose a personal income tax on individuals. As we make acquisitions or expand our business, we may control assets or conduct business in additional states that impose a personal income tax. It is the unitholder's responsibility to file all federal, state and local tax returns.

**If we are required to make payments of taxes, penalties, and interest resulting from audit adjustments, our cash available for distribution to our unitholders might be substantially reduced.**

Recently enacted legislation applicable to partnership tax years beginning after 2017 alters the procedures for auditing partnerships and for assessing and collecting U.S. federal income taxes due (including any applicable penalties and interest) as a result of an audit by the IRS. Under the new rules, unless we are eligible to (and do) elect to issue adjusted Schedules K-1 to our unitholders with respect to an audited and adjusted return, the IRS will assess and collect taxes (including any applicable penalties and interest) directly from us in the year in which the audit is completed. If we are required to make payments of taxes, penalties, and interest resulting from audit adjustments, our cash available for distribution to our unitholders might be substantially reduced. In addition, because payment would be due for the taxable year in which the audit is completed, unitholders during that taxable year would bear the expense of the adjustment even if they were not unitholders during the audited taxable year. Pursuant to this new legislation, we will designate a person (our general partner) to act as the "partnership representative" who shall have the sole authority to act on our behalf with respect to dealings with the IRS under these new audit procedures.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

The location and general character of our pipeline systems, trucking operations, terminals, processing facilities and other important physical properties are described in the segment discussions in Item 1. The facilities have been constructed or acquired over a period of years and vary in age and operating efficiency. We believe that our properties and facilities are adequate for our operations and that our facilities are adequately maintained. We are the lessee or sub-lessee under a number of cancellable and non-cancellable operating leases for certain properties including land, terminals, right-of-way permits and other operating facilities used in the gathering, terminalling, transporting and storing of crude oil, natural gas and refined products. See "Contractual Obligations" in Item 7 and Note 10 to our consolidated financial statements in Item 8 for additional information on future commitments related to our properties.

## ITEM 3. 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. 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.

### UNRESOLVED MATTERS

**TIOGA, NORTH DAKOTA CRUDE OIL PIPELINE RELEASE**. In September 2013, we 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 during the next few years to restore the site for agricultural use. We accrued an additional $7 million during the year ended December 31, 2016, to reflect improved scope definition and estimates, which resulted in an increase in the total estimated cost associated with the project. This incident was covered by our pollution liability insurance policy, subject to a $1 million deductible and a $25 million loss limit in place at that time. Pursuant to this policy, there were no insurance recovery receivables related to the Crude Oil Pipeline Release at both December 31, 2016 and 2015. The estimated remediation costs of $73 million exceeded our policy loss limit by $48 million as of December 31, 2016. We received no insurance proceeds for the year ended December 31, 2016, and $18 million and $7 million in reimbursement of costs incurred during the years ended December 31, 2015 and 2014, respectively.

On October 7, 2015, we received an offer to settle a Notice of Violation ("NOV") from the North Dakota Department of Health ("NDDOH"). The NOV was issued on March 21, 2015, and alleges violations of water pollution regulations as a result of a release of crude oil that occurred near Tioga, North Dakota on our gathering and transportation pipeline system in September

2013. We are currently negotiating the settlement of this matter with the NDDOH. The ultimate resolution of the matter will not have a material impact on our liquidity, financial position, or results of operations.

**XTO ENERGY INC. V. QEP FIELD SERVICES COMPANY.** Prior to the Rockies Natural Gas Acquisition, XTO filed a complaint against QEPFS 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"). Tesoro Logistics processes XTO's natural gas on a firm basis under the XTO Agreement. The XTO Agreement requires Tesoro Logistics to transport, fractionate and market XTO's natural gas liquids derived from XTO's processed gas. XTO is seeking monetary damages related to Tesoro Logistics 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. Trial is set for July 2017.

In relation to $31 million of billed and unbilled amounts in our receivables that are subject to dispute with XTO as of December 31, 2016 as a result of this matter, we continue to believe that loss is not probable and estimable as we believe our allocation of applicable transportation, fractionation and marketing costs incurred by us related to minimum volume commitments made to us by XTO are permitted under the XTO Agreement and are consistent with industry standard. We have concluded continued recognition of revenue for charges allocated to XTO is appropriate under revenue recognition criteria including the fact that the costs being allocated are fixed and determinable and their collectability is deemed to be reasonably assured. Ultimate resolution of this matter is not expected to have a material impact on our liquidity or financial position, but the establishment of a reserve for uncollectible amounts subject to dispute may have a material impact on our results of operations in the period of establishment. A change in our ability to recognize revenue in future periods for the allocation of applicable transportation, fractionation, and marketing costs is not expected to have a material impact on our results of operations.

### RESOLVED MATTERS

**CHEVRON DIESEL PIPELINE RELEASE.** On March 18, 2013, Chevron detected and responded to the release of diesel fuel that occurred near Willard, Utah on the Northwest Products System. Both the Corrective Action Order issued by the Pipeline and Hazardous Materials Safety Administration on March 22, 2013, and the notice of violation and compliance order issued by the Department of Environmental Quality, Division of Water Quality, of the state of Utah on April 11, 2013, were closed as of December 31, 2016.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES

### UNIT PRICE AND CASH DISTRIBUTIONS

Our common units trade on the New York Stock Exchange under the symbol "TLLP." There were five holders of record of our 68,941,204 outstanding common units held by the public, including common units held on behalf of others as of February 15, 2017. Our common units represent limited partner interests in us that entitle the holders to the rights and privileges specified in our partnership agreement. In addition, as of February 15, 2017, Tesoro Corporation and its affiliates ("Tesoro") owned 34,055,042 of our common units and 2,100,900 of our general partner units (the 2% general partner interest), which together constitutes a 34% ownership interest in us.

#### DAILY HIGH AND LOW INTRADAY TRADING PRICES PER COMMON UNIT AND CASH DISTRIBUTIONS

| | Trading Prices per Common Unit | | | | |
|---|---|---|---|---|---|
| Quarter Ended | High | Low | Quarterly Cash Distribution per Unit (a) | Distribution Date | Record Date |
| **December 31, 2016** | **$ 51.87** | **$ 43.00** | **$ 0.9100** | **February 14, 2017** | **February 3, 2017** |
| September 30, 2016 | 50.70 | 44.55 | 0.8750 | November 14, 2016 | November 4, 2016 |
| June 30, 2016 | 51.35 | 41.22 | 0.8420 | August 12, 2016 | August 2, 2016 |
| March 31, 2016 | 51.43 | 35.18 | 0.8100 | May 13, 2016 | May 2, 2016 |
| December 31, 2015 | 56.92 | 41.24 | 0.7800 | February 12, 2016 | February 2, 2016 |
| September 30, 2015 | 57.90 | 40.14 | 0.7500 | November 13, 2015 | November 2, 2015 |
| June 30, 2015 | 61.74 | 53.01 | 0.7225 | August 14, 2015 | August 3, 2015 |
| March 31, 2015 | 60.19 | 49.33 | 0.6950 | May 15, 2015 | May 4, 2015 |

(a) Represents cash distributions attributable to the quarter and declared and paid within 45 days of quarter end in accordance with our partnership agreement.

### DISTRIBUTIONS OF AVAILABLE CASH

Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute our available cash to unitholders of record on the applicable record date.

#### DEFINITION OF AVAILABLE CASH

Available cash is defined in our partnership agreement and generally means, for any quarter, all cash on hand at the end of the quarter less the amount of cash reserves established by our general partner at the date of determination of available cash for the quarter plus, if our general partner so determines, all or any portion of the cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made subsequent to the end of such quarter.

#### INTENT TO DISTRIBUTE THE MINIMUM QUARTERLY DISTRIBUTION

We intend to make a minimum quarterly distribution to the holders of our common units of $0.3375 per unit, or $1.35 per unit on an annualized basis, to the extent we have sufficient cash from our operations after the establishment of cash reserves and the payment of costs and expenses, including reimbursements of expenses to our general partner. However, there is no guarantee that we will pay the minimum quarterly distribution or any amount on our units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement.

See Note 11 to our consolidated financial statements in Item 8 for additional information regarding general partner interest, incentive distribution rights, and percentage allocations of available cash.

## UNREGISTERED SALES AND PURCHASES OF EQUITY SECURITIES

As described elsewhere in this Annual Report on Form 10-K and in our Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 7, 2016 and September 22, 2016, we issued equity to Tesoro Logistics GP, LLC, our general partner, as part of the consideration for the acquisition of the Alaska Storage and Terminalling Assets, and on November 21, 2016, we issued equity to our general partner as part of the consideration for the acquisition of the Northern California Storage and Terminalling Assets.

### PURCHASES BY THE PARTNERSHIP OF ITS COMMON UNITS

| Period | Total Number of Units Purchased (a) | Average Price Paid per Unit | Total Number of Units Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Units that May Yet Be Purchased Remaining at Period End Under the Plan or Programs (in millions) |
|---|---|---|---|---|
| October 2016 | — | $ — | — | $ — |
| November 2016 | — | $ — | — | $ — |
| December 2016 | 10,738 | $ 47.71 | — | $ — |
| **Total** | **10,738** | | **—** | |

(a) The entire 10,738 units were acquired from employees during the fourth quarter of 2016 to satisfy tax withholding obligations in connection with the vesting of performance phantom unit awards issued to them.

# ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data as of and for each of the five years in the period ended December 31, 2016, which is derived from the combined financial results of Tesoro Logistics LP predecessor (the "TLLP Predecessor"), our predecessor for accounting purposes and the consolidated financial results of TLLP.

In 2016, 2015 and 2014, we entered into various transactions with Tesoro and our general partner, TLGP, pursuant to which TLLP acquired from Tesoro the following:

- tankage, refined product storage, marine terminal terminalling and storage assets, pipelines, causeway and ancillary equipment located in Martinez, California, effective November 21, 2016;
- all of the limited liability company interests in Tesoro Alaska Terminals, LLC, tankage, bulk tank farm, a truck rack and rail-loading facility, terminalling and other storage assets located in Kenai, Anchorage and Fairbanks, Alaska, completed in two stages on July 1, 2016 and September 16, 2016;
- a crude oil and refined products storage tank facility located at Tesoro's Los Angeles refinery and a 50% fee interest in a pipeline that transports jet fuel from Tesoro's Los Angeles refinery to the Los Angeles International Airport, effective November 12, 2015; and
- truck terminals, storage tanks, rail loading and unloading facilities and a refined products pipeline effective July 1, 2014, for the terminals, storage tanks and rail facilities and effective September 30, 2014, for the refined products pipeline (the "West Coast Logistics Assets Acquisition").

These transactions are collectively referred to as "Acquisitions from Tesoro".

These transactions were transfers between entities under common control. Accordingly, the financial information contained herein of the TLLP Predecessors and TLLP have been retrospectively adjusted to include the historical results of the Predecessors. Our Predecessors did not record revenue for intercompany trucking, terminalling, storage and short-haul pipeline transportation services.

All financial results have also been adjusted for subsequent transactions with Predecessors. For additional information regarding these adjustments, see "Business Strategy and Overview" and "Results of Operations" in Item 7.

The following table should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and our consolidated financial statements in Item 8.

## SELECTED FINANCIAL DATA

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2016 (a)** | **2015 (a)** | **2014 (a)** | **2013 (a)** | **2012 (a)** |
| | (In millions, except units and per unit amounts) | | | | |
| **Statement of Operations Data** | | | | | |
| Total revenues (b) | **$ 1,220** | $ 1,112 | $ 600 | $ 313 | $ 164 |
| Net earnings | **$ 315** | $ 249 | $ 56 | $ 18 | $ 48 |
| Loss attributable to Predecessors | **24** | 43 | 46 | 62 | 9 |
| Net earnings attributable to noncontrolling interest | **—** | (20) | (3) | — | — |
| Net earnings attributable to partners | **$ 339** | $ 272 | $ 99 | $ 80 | $ 57 |
| General partner's interest in net earnings, including incentive distribution rights | **$ 152** | $ 73 | $ 43 | $ 12 | $ 3 |
| Common unitholders' interest in net earnings | **$ 187** | $ 199 | $ 43 | $ 46 | $ 28 |
| Subordinated unitholders' interest in net earnings | **$ —** | $ — | $ 13 | $ 22 | $ 26 |
| Net earnings per limited partner unit: | | | | | |
| Common - basic | **$ 1.87** | $ 2.33 | $ 0.96 | $ 1.48 | $ 1.90 |
| Common - diluted | **$ 1.87** | $ 2.33 | $ 0.96 | $ 1.47 | $ 1.89 |
| Subordinated - basic and diluted | **$ —** | $ — | $ 0.62 | $ 1.35 | $ 1.47 |
| Cash distribution per unit | **$ 3.3070** | $ 2.8350 | $ 2.4125 | $ 2.0175 | $ 1.6050 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | **2016** | **2015 (a)** | **2014 (a)** | **2013 (a)** | **2012 (a)** |
| | (in millions) | | | | |
| **Balance Sheet Data** | | | | | |
| Total assets | **$ 5,860** | $ 5,131 | $ 4,955 | $ 1,560 | $ 381 |
| Total debt, net of unamortized issuance costs | **$ 4,054** | $ 2,844 | $ 2,544 | $ 1,141 | $ 344 |

(a) Includes the historical results related to TLLP and Predecessors for years 2016, 2015 and 2014. For years 2013 and 2012, recasted amounts for the recent 2016 dropdowns are not shown because management does not believe presentation of these impacts is material to an investor's understanding of TLLP's current operations.

(b) Our Predecessors 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, with the exception of transportation regulated by the FERC and the Regulatory Commission of Alaska tariffs charged to Tesoro on the refined products pipeline included in the West Coast Logistics Assets Acquisition.

# ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESU 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 "Predecessors" refer collectively to the acquired assets from Tesoro, and those assets, liabilities and results of operations.

Management's Discussion and Analysis is our analysis of our financial performance, financial condition and significant trends that may affect future performance. All statements in this section, other than statements of historical fact, are forward-looking statements that are inherently uncertain. See "Important Information Regarding Forward-Looking Statements" for a discussion of the factors that could cause actual results to differ materially from those projected in these statements. The following information concerning our business description, results of operations and financial condition should be read in conjunction with Items 1 and 2, and our consolidated financial statements and the notes thereto in Item 8.

## BUSINESS STRATEGY AND OVERVIEW

We are committed to growing our fee-based revenue and diversifying our portfolio and being a leading full-service logistics company. In recent years, we have implemented organic and strategic investments to transform the composition of our portfolio. Refer to Part I, Item 1 for further discussion on our segments and the assets associated with our segments' operations. See our Capital Expenditures discussion within the Capital Resources and Liquidity section for more on our organic growth strategy.

### STRATEGY AND GOALS

Our primary business objectives are to maintain and grow 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:

| Growing a stable, fee-based business that provides a competitive, full-service logistics offering to customers | |
|---|---|
| Optimizing Existing Asset Base | • Operating assets that are the safest, always compliant, highly reliable<br>• Improving operational efficiency and maximizing asset utilization<br>• Expanding third-party business; delivering extraordinary customer service |
| Pursuing Organic Expansion Opportunities | • Identifying and executing low-risk, high-return growth projects<br>• Investing to capture the full commercial value of logistics assets<br>• Growing asset capability to support Tesoro value chain optimization |
| Growing through Third Party Acquisitions | • Pursuing assets and businesses in strategic western U.S. geography that fit integrated business model, delivering synergies and growth<br>• Focusing on high quality assets that provide stable, fee-based income and enhancing organizational capacity |
| Growing through Tesoro Strategic Expansion | • Strategically partnering with Tesoro on acquisitions in refining and marketing value chains<br>• Capturing full value of Tesoro's embedded logistics assets |

We have been implementing our strategy, which has allowed us to increase our distributions by 17% over last year. In addition, relative to these goals, in 2017, we intend to continue implementing this strategy and have completed or announced plans to:

- expand our assets on our Gathering and Processing segments located in the Bakken Shale/Williston Basin area of North Dakota and Montana (the "Bakken Region") and Green River Basin, Uinta Basin and Vermillion Basin in the states of Utah, Colorado and Wyoming (the "Rockies Region") in support of third-party demand for crude oil, natural

gas and water gathering services, Natural Gas Processing services, as well as serving Tesoro's demand for Bakken crude oil in the mid-continent and west coast refining systems, including:

- further expanding capacity and capabilities as well as adding new origin and destination points for our common carrier pipelines in North Dakota and Montana (the "High Plains Pipeline");
- expanding our crude oil, natural gas and water gathering and associated gas processing footprint in the Bakken Region to enhance and improve overall basin logistics efficiencies;
- increasing compression on our natural gas gathering systems in the Green River and Vermillion basins to enhance natural gas volumes recovered from existing wells and support potential new drilling activity;
- expanding our gathering footprint and increase compression capabilities in the Uinta basin to increase volumes on our gathering systems and through our processing assets; and
- pursuing strategic assets across the western U.S. including potential acquisitions from Tesoro.

- grow our terminalling and transportation business across the western U.S. through:
  - increasing our terminalling volumes by expanding capacity and growing our third-party services at certain of our terminals;
  - optimizing Tesoro volumes and growing third-party throughput at our terminalling and transportation assets; and
  - pursuing strategic assets in the western U.S. such as our acquisition of Tesoro's terminalling assets and storage assets in Alaska and California.

## ACQUISITIONS

**NORTH DAKOTA GATHERING AND PROCESSING ASSETS** On January 1, 2017, we acquired crude oil, natural gas and produced water gathering systems and two natural gas processing facilities from Whiting Oil and Gas Corporation, GBK Investments, LLC and WBI Energy Midstream, LLC for total consideration of approximately $700 million funded with cash on-hand, which included the borrowings under our secured revolving credit facility (the "Revolving Credit Facility"). The North Dakota Gathering and Processing Assets include over 650 miles of crude oil, natural gas, and produced water gathering pipelines, 170 MMcf per day of natural gas processing capacity and 18.7 Mbpd of fractionation capacity in the Sanish and Pronghorn fields of the Williston Basin in North Dakota. The revenue from the assets is approximately 90% fee-based and backed by acreage dedications from ten producers. The acquisition was announced on November 21, 2016 and was subject to customary closing conditions including regulatory approval.

**NORTHERN CALIFORNIA TERMINALLING AND STORAGE ASSETS** Effective November 21, 2016, we acquired certain terminalling and storage assets located in Martinez, California from subsidiaries of Tesoro for a total consideration of $400 million, comprised of $360 million in cash financed with borrowings under our secured dropdown credit facility (the "Dropdown Credit Facility"), and the issuance of equity to Tesoro with a fair value of approximately $40 million. The Northern California Terminalling and Storage Assets include 5.8 million barrels of crude oil, feedstock, and refined product storage capacity at Tesoro's Martinez Refinery along with the Avon marine terminal capable of handling up to 80 Mbpd of feedstock and refined product throughput. The equity consideration was comprised of common units and general partner units. In connection with the acquisition, we and Tesoro entered into long-term, fee-based storage and throughput and use agreements.

**ALASKA STORAGE AND TERMINALLING ASSETS** Effective July 1, 2016, we agreed to purchase certain terminalling and storage assets owned by Tesoro for total consideration of $444 million, which was completed in two phases. On July 1, 2016, we completed the acquisition of the first phase consisting of tankage with a shell capacity of approximately 3.5 million barrels and ancillary facilities used for the operations at Tesoro's Kenai Refinery. The second phase was completed on September 16, 2016 and consisted of refined product terminals in Anchorage and Fairbanks. Consideration paid for the first phase was $266 million, comprised of approximately $240 million in cash, financed with borrowings under the Dropdown Credit Facility, and the issuance of equity to Tesoro with a fair value of $26 million. Consideration paid for the second phase was $178 million, comprised of approximately $160 million in cash, financed with borrowings under the Dropdown Credit Facility, and the issuance of equity to Tesoro with a fair value of $18 million.

## CURRENT MARKET DEVELOPMENTS

In 2016, the yearly average spot prices of the commodities that we handle, including crude oil, natural gas, and refined products, declined while prices for natural gas liquids increased. The lower price levels along with increased volatility in the commodity price environment created challenges for crude oil and natural gas producers who have reduced their drilling and production plans in the basins where we operate. The U.S. oil and gas drilling rig count continued to see declines in the first half

of 2016 but reversed course in the second half of the year leaving year-over-year count relatively unchanged. Looking forward, price appreciation, improved producer economics, advanced drilling techniques, improved drilling efficiencies along with a backlog of uncompleted wells available for completion could positively impact overall U.S. production volumes.

Lower retail prices and favorable economic conditions throughout 2016 supported increased demand for refined products from our downstream refining and marketing customers. Changes in the U.S. political landscape, namely around the lifting of the 40 year old crude oil export ban in December 2015, had a minimal impact on our business and we believe this will continue to be the case in the short term. We continue to monitor the impact of these changes in market prices and fundamentals as it relates to our business. Currently, we believe our diversified portfolio, which is underpinned by long-term contracts, many of which are supported by minimum volume commitments, adequately supports our goals and objectives outlined above.

## RESULTS OF OPERATIONS

A discussion and analysis of the factors contributing to our results of operations presented below includes the combined financial results of our Predecessors and the consolidated financial results of TLLP. 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.

### HOW WE EVALUATE OUR OPERATIONS

Our management uses a variety of financial and operating measures to analyze operating segment performance. These measures are significant factors in assessing our operating results and profitability and include: (1) throughput volumes (including gathering pipeline and pipeline transportation, crude oil trucking, terminalling, and processing), (2) operating expenses and (3) certain other financial measures as discussed further in "Non-GAAP Financial Measures" below, including net earnings before interest, income taxes, depreciation and amortization expenses ("EBITDA") and Distributable Cash Flow.

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 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).

**THROUGHPUT VOLUMES.** The amount of revenue we generate primarily depends on the volumes of crude oil, natural gas, NGLs and refined products that we handle with our pipeline, trucking, terminalling and processing assets. These volumes are affected by the supply of, and demand for, crude oil, natural gas, NGLs and refined products in the markets served directly or indirectly by our assets. Although Tesoro and other third-party customers have committed to minimum volumes under commercial agreements, our results of operations will be impacted by our ability to:

- increase throughput volumes on our common carrier crude oil gathering and transportation system in North Dakota and Montana ("High Plains System") by making connections to existing or new third-party pipelines or rail loading facilities, which will be driven by the anticipated supply of and demand for additional crude oil produced from the Bakken Region;
- increase throughput volumes at our refined products terminals and provide additional ancillary services at those terminals, such as ethanol blending and additive injection;
- increase throughput volumes on our natural gas system through the connection of new wells and addition of compression to existing wells; and
- identify and execute organic expansion projects, and capture incremental Tesoro or third-party volumes.

Additionally, increased throughput may depend on Tesoro transferring volumes that it currently distributes through competing terminals to our terminals, including certain terminals located in Washington and California.

**OPERATING EXPENSES.** We manage our operating expenses in tandem with meeting our environmental and safety requirements and objectives and maintaining the integrity of our assets. Our operating expenses are comprised primarily of labor expenses, repairs and other maintenance costs, lease costs and utility costs. With the exception of contract labor for trucking, additive costs at our terminals and utilities, transportation and fractionation fees, which vary based on throughput volume, our expenses generally remain stable across broad ranges of throughput volumes, but can fluctuate from period to period depending on the mix of activities performed during that period and the timing of those expenses. We seek to manage our maintenance expenditures on our pipelines and terminals by scheduling maintenance throughout the year, when possible, to avoid significant variability in our maintenance expenditures and minimize their impact on our cash flows.

Our operating expenses are also affected by the imbalance gain and loss provisions in our active published tariffs and in our commercial agreements with Tesoro. Under our contractual agreements or tariffs, we retain a portion of the crude oil shipped on certain of our pipelines or refined products we handle at certain of our terminals and bear any volume losses in excess of that retained amount. The value of any crude oil or refined product imbalance settlements resulting from these tariffs or contractual provisions is determined by using the average market prices for the applicable commodity, less a specified discount as specified in the agreement or tariff. Any settlements under tariffs or contractual provisions where we bear any crude oil or refined product volume losses less than amounts specified reduce our operating expenses in the period in which they are realized to the extent they are within the loss allowance and increase our operating expenses in such period to the extent they exceed the loss allowance. For other terminals, and under our other commercial agreements with Tesoro, we have no obligation to measure volume losses and have no liability for physical losses.

## NON-GAAP FINANCIAL 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. These measures are important factors in assessing our operating results and profitability and include:

- Financial non-GAAP measure of EBITDA, as defined above; and
- Liquidity non-GAAP measures:
  - Distributable Cash Flow—U.S. GAAP-based 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
  - Pro Forma Distributable Cash Flow—Distributable Cash Flow plus or minus adjustments for the acquisition of noncontrolling interest in connection with the merger of QEP Midstream Partners, LP ("QEPM") with TLLP completed in July 2015

We present these measures because we believe they may help investors, analysts, lenders and ratings agencies analyze our results of operations and liquidity in conjunction with our U.S. GAAP results, including but not limited to:

- 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.

Management also uses these measures to assess internal performance, and we believe they may provide meaningful supplemental information to the users of our financial statements. 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. These measures should not be considered substitutes for their most directly comparable U.S. GAAP financial measures.

## FACTORS AFFECTING THE COMPARABILITY OF OUR FINANCIAL RESULTS

The Partnership's future results of operations may not be comparable to the historical results of operations of the acquired assets from our Predecessors for the reasons described below.

Our financial information includes the historical results of our Predecessors and the results of TLLP for all periods presented. The financial statements of our Predecessors have been prepared from the separate records maintained by Tesoro and may not necessarily be indicative of the conditions that would have existed or the results of operations if our Predecessors had been operated as an unaffiliated entity.

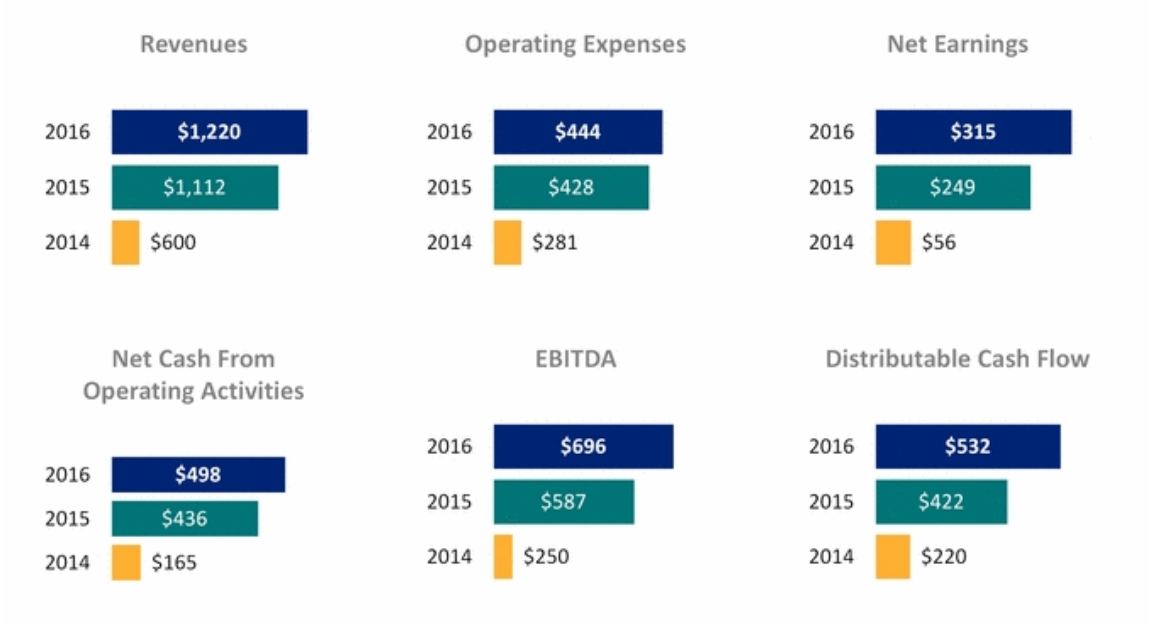
There are differences in the way our Predecessors recorded revenues and the way the Partnership records revenues after the Acquisitions from Tesoro, as defined in Note 1 to our consolidated financial statements in Item 8. The assets that we acquire from Tesoro have historically been a part of the integrated operations of Tesoro, and our Predecessors generally recognized only the costs and did not record revenue for transactions with Tesoro. Accordingly, the revenues in our Predecessors' historical combined financial statements relate only to amounts received from third parties for these services and amounts received from Tesoro with respect to transportation regulated by the Regulatory Commission of Alaska ("RCA").

The Partnership's revenues are generated by third-party contracts and from commercial agreements we entered into with Tesoro, under which Tesoro pays us fees for gathering crude oil and distributing, transporting and storing crude oil and refined products. Additionally, in conjunction with the acquiring all of the limited liability company interests of QEP Field Services, LLC, (the "Rockies Natural Gas Business Acquisition"), we began processing natural gas for certain producers under keep-whole processing agreements and gathering and processing natural gas under fee-based contracts. At that time, we concurrently entered into a five-year agreement with Tesoro, which transfers the commodity risk exposure associated with these keep-whole processing agreements from us to Tesoro. See Note 3 to our consolidated financial statements in Item 8 for additional information on our keep-whole agreement with Tesoro.

We have a 78% interest in Rendezvous Gas Services, L.L.C. ("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 the reassessment performed in conjunction with our adoption of the Accounting Standards Update 2015-02, "Amendments to the Consolidation Analysis", as of January 1, 2016, we determined RGS represents a variable interest entity to us for which we are not the primary beneficiary resulting in the deconsolidation of RGS and the reporting of RGS as an equity method investment. RGS is reflected in our results of operations for the years ended December 31, 2015 and 2014.

## CONSOLIDATED RESULTS

**HIGHLIGHTS (in millions)**



**RECONCILIATION OF NET EARNINGS TO EBITDA (in millions)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 (a) | 2015 (a) | 2014 (a) |
| **Reconciliation of Net Earnings to EBITDA:** | | | |
| Net earnings | **$ 315** | $ 249 | $ 56 |
| Depreciation and amortization expense | **190** | 187 | 85 |
| Interest and financing costs, net of capitalized interest | **191** | 150 | 109 |
| Income tax expense | **—** | 1 | — |
| **EBITDA** | **$ 696** | $ 587 | $ 250 |
| **Reconciliation of Net Cash from Operating Activities to Distributable Cash Flow and Pro Forma Distributable Cash Flow:** | | | |
| Net cash from operating activities (b) | **$ 498** | $ 436 | $ 165 |
| Changes in assets and liabilities | **44** | 19 | (13) |
| Predecessors' impact | **17** | 34 | 37 |
| Maintenance capital expenditures (c) | **(72)** | (54) | (44) |
| Reimbursement for maintenance capital expenditures (c) | **28** | 9 | 7 |
| Net earnings attributable to noncontrolling interest (d) | **—** | (18) | (3) |
| Other adjustments for noncontrolling interest (e) | **—** | (21) | 8 |
| Adjustments for equity method investments (f) | **2** | (3) | — |
| Gain (loss) on sales of assets, net of proceeds | **8** | (1) | 14 |
| Other (g) | **7** | 21 | 49 |
| **Distributable Cash Flow** | **532** | 422 | 220 |
| Pro forma adjustment for acquisition of noncontrolling interest (h) | **—** | 36 | (1) |
| **Pro Forma Distributable Cash Flow** | **$ 532** | $ 458 | $ 219 |

(a) Includes the historical results related to the Partnership and Predecessors for the years ended December 31, 2016, 2015 and 2014.
(b) 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.
(c) We adjust our reconciliation of distributable cash flows for maintenance capital expenditures, 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.
(d) Excludes $2 million of undistributed QEPM earnings prior to the closing of the merger of QEPM with TLLP, as discussed further in Note 2 to our consolidated financial statements in Item 8, for the year ended December 31, 2015, that unitholders of QEPM were entitled to receive, but TLLP unitholders received as a result of the merger.
(e) Adjustments represent cash distributions in excess of (or less than) our controlling interest in income and depreciation as well as other adjustments for depreciation and maintenance capital expenditures applicable to the noncontrolling interest obtained in the Rockies Natural Gas Business Acquisition.
(f) We adjust net cash from operating activities to reflect cash distributions received from equity method investments attributed to the period reported for the purposes of calculating distributable cash flow.
(g) Other includes items that had a non-cash impact on our operations and should not be considered in distributable cash flow. Non-cash items primarily include the exclusion of the non-cash gain of $6 million recognized relating to the settlement of the Questar Gas Company litigation for the year ended December 31, 2016 and the inclusion of $13 million for acquired deficiency revenue billings to customers for the year ended December 31, 2015. Non-cash items for the year ended December 31, 2014 primarily include $19 million of acquisition costs included in general and administrative expenses primarily related to the merger of QEPM into TLLP, $10 million for acquired deficiency revenue billings to customers, $7 million of costs for detailed inspection and maintenance program on the Northwest Products System and a gain of $5 million from TLLP's sale of its Boise terminal.
(h) Reflects the adjustment to include the noncontrolling interest in QEPM as controlling interest based on the pro forma assumption that the merger occurred on December 2, 2014.

## 2016 COMPARED TO 2015

**OVERVIEW.** Our net earnings for 2016 increased $66 million, or 26.5%, to $315 million from $249 million for 2015 primarily driven by an increase in revenues partially offset by an increase to interest and financing costs. EBITDA increased $109 million corresponding with the $108 million increase to revenues as increases to operating expenses were offset by decreases in our general and administrative expenses.

**REVENUES.** Revenues for 2016 increased $108 million, or 9.7%, to $1.2 billion benefiting from a full year of operations of the crude oil and refined product storage and pipeline assets in Los Angeles, California (the "LA Storage and Handling Assets")that were purchased from Tesoro in November 2015 and the 2016 acquisition of the Alaska Storage and Terminalling Assets that were purchased from Tesoro in July and September 2016. Terminalling and Transportation segment revenues increased $110 million as a result of the commercial storage agreements executed with Tesoro in connection with the LA Storage and Handling Assets and Alaska Storage and Terminalling Assets. Revenues in our Gathering and Processing segments remained flat compared to 2015.

**OPERATING AND OTHER EXPENSES.** Operating expenses increased $16 million primarily due to the impact of deconsolidation of RGS in 2016 where transactions are reported gross. The related transactions with RGS in 2015 were eliminated during consolidation. Partially offsetting the increase was a decline in expenses recognized in connection with our environmental accruals.

**INTEREST AND FINANCING COSTS.** Net interest and financing costs increased $41 million primarily related to the issuance of new senior notes during 2016 and the write-off of unamortized debt issuance costs in connection with debt transactions as discussed in the "Capital Resources and Liquidity" section.

**OTHER INCOME, NET.** Other income, net for 2016 increased $6 million due to a one-time settlement gain. There were no settlement gains in 2015.

### 2015 COMPARED TO 2014

**OVERVIEW.** Our net earnings for 2015 increased $193 million, or 345%, to $249 million from $56 million for 2014 primarily driven by an increase in revenues. EBITDA increased $337 million primarily driven by the $512 million increase to revenues during the period partially offset by increases to operating and other expenses as a result of acquired operations.

**REVENUES.** Revenues for 2015 increased by $512 million, or 85%, to $1.1 billion driven primarily by the Rockies Natural Gas Business Acquisition and the West Coast Logistics Assets Acquisition. Revenues in our Gathering and Processing segments increased $204 million and $255 million, respectively, benefiting from a full year of operations of the Rockies Natural Gas Business. Terminalling and Transportation segment revenues increased $53 million due primarily to the West Coast Logistics Assets that were acquired mid-year in 2014.

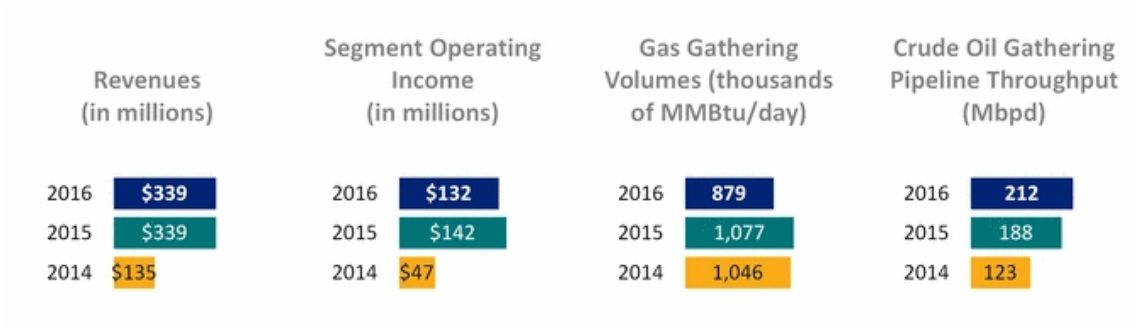
**OPERATING AND OTHER EXPENSES.** The increase in revenues as a result of acquisitions was partially offset by a corresponding increase in expenses primarily due to a full year of operations of the Rockies Natural Gas Business acquired in December 2014. Excluding the impact of acquisitions, operating expenses were relatively flat, general and administrative expenses increased due to higher labor costs due to increased personnel headcount. Depreciation and amortization expenses increased due to acquisitions and organic growth projects being completed and placed into service including the Connolly Gathering System.

**INTEREST AND FINANCING COSTS.** Net interest and financing costs increased $41 million primarily due to the issuance of senior notes that were used to fund the Rockies Natural Gas Business Acquisition.

## SEGMENT RESULTS OF OPERATIONS

### GATHERING SEGMENT

**HIGHLIGHTS**



Our Gathering segment consists of crude oil, natural gas and produced water gathering systems in the Bakken Region and 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 Mandan refinery and other destinations in the Bakken Region, including export rail terminals and pipelines. Our natural gas gathering systems include the Uinta Basin Gathering System and our equity method investment Uintah Basin Field Services, L.L.C. In addition, we own four gathering systems and two pipelines regulated by the FERC through, which we provide natural gas and crude oil transportation services.

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

| | Years Ended December 31, | |
|---|---|---|
| | **2016** | **2015** |
| Revenues | | |
| Gas gathering revenues | **$ 163** | $ 170 |
| Crude oil gathering pipeline revenues | **133** | 123 |
| Crude oil trucking revenues | **36** | 46 |
| Other revenues | **7** | — |
| Total Revenues | **339** | 339 |
| Costs and Expenses | | |
| Operating expenses (a) | **131** | 119 |
| General and administrative expenses | **11** | 10 |
| Depreciation and amortization expenses | **62** | 67 |
| Loss on asset disposals and impairments | **3** | 1 |
| Gathering Segment Operating Income | **$ 132** | $ 142 |
| **Volumes/Rates** | | |
| Gas gathering throughput (thousands of MMBtu/d) (b) | **879** | 1,077 |
| Average gas gathering revenue per MMBtu (b) | **$ 0.51** | $ 0.43 |
| Crude oil gathering pipeline throughput (Mbpd) | **212** | 188 |
| Average crude oil gathering pipeline revenue per barrel | **$ 1.72** | $ 1.79 |
| Crude oil trucking volume (Mbpd) | **30** | 38 |
| Average crude oil trucking revenue per barrel | **$ 3.23** | $ 3.25 |

## 2016 COMPARED TO 2015

**VOLUMES.** Average gas gathering volumes decreased 198 thousand MMBtu/d in 2016 compared to 2015 driven primarily by the exclusion of volumes associated with RGS following its deconsolidation in 2016. Third-party volumes associate with RGS, which are included for 2015, were 141 thousand MMBtu/d. Crude oil gathering pipeline throughput volumes increased 24 Mbpd, or 13%, in 2016, as a result of projects to expand the pipeline gathering system capabilities, which include additional origin and destination interconnections. Crude oil trucking throughput volumes decreased 8 Mbpd, or 21%, during 2016 as more volumes were gathered on our High Plains Pipeline.

**FINANCIAL RESULTS** Gathering revenues remained flat in 2016 compared to 2015. During 2016, revenues on the High Plains Pipeline System increased from 2015, which were partially offset by decreases in crude oil trucking revenues. Additionally, 2016 includes a recovery of fees related to right-of-way costs. The decrease in gas gathering revenues in 2016 as compared to 2015 was primarily driven by the exclusion of volumes associated with RGS following our deconsolidation of RGS in 2016 partially offset by increases in the average gas gathering rate recognized.

Operating expenses increased $12 million, or 10%, to $131 million in 2016 compared to $119 million in 2015, primarily related to the reporting of gross operating expense related to our transactions with RGS for 2016 that were previously eliminated in 2015 partially offset by lower environmental remediation costs.

(a) Operating expenses include net imbalance settlement gains of $3 million, $2 million and $7 million in the years ended December 31, 2016, 2015 and 2014, respectively.

(b) Prior to deconsolidation of RGS as of January 1, 2016, fees paid by TLLP to RGS were eliminated upon consolidation and third-party transactions, including revenue and throughput volumes, were included in TLLP's results of operations. Third party volumes associated with RGS, included in gas gathering volume for the years ended December 31, 2015 and 2014, were 141 thousand MMBtu/d and 148 thousand MMBtu/d, respectively and reduced our average gas gathering revenue by approximately $0.05 per MMBtu for both periods.

(c) We commenced natural gas gathering and processing operations with the acquisition of the Rockies Natural Gas Business in December 2014.

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

| | Years Ended December 31, | |
|---|---|---|
| | 2015 | 2014 (c) |
| Revenues | | |
| Gas gathering revenues | $ 170 | $ 11 |
| Crude oil gathering pipeline revenues | 123 | 66 |
| Crude oil trucking revenues | 46 | 58 |
| Total Revenues | 339 | 135 |
| Costs and Expenses | | |
| Operating expenses (a) | 119 | 72 |
| General and administrative expenses | 10 | 5 |
| Depreciation and amortization expenses | 67 | 11 |
| Loss on asset disposals | 1 | — |
| Gathering Segment Operating Income | $ 142 | $ 47 |
| **Volumes/Rates** | | |
| Gas gathering throughput (thousands of MMBtu/d) | 1,077 | 1,046 |
| Average gas gathering revenue per MMBtu | $ 0.43 | $ 0.41 |
| Crude oil gathering pipeline throughput (Mbpd) | 188 | 123 |
| Average crude oil gathering pipeline revenue per barrel | $ 1.79 | $ 1.46 |
| Crude oil trucking volume (Mbpd) | 38 | 49 |
| Average crude oil trucking revenue per barrel | $ 3.25 | $ 3.23 |

## 2015 COMPARED TO 2014

**VOLUMES.** Gas gathering throughput volumes were 1,077 thousand MMBtu/d in 2015, which contributed approximately 50% of total Gathering segment revenue primarily due to the addition of the natural gas gathering operations with the Rockies Natural Gas Assets. Crude oil gathering pipeline throughput volumes increased 65 Mbpd, or 53%, in 2015, as a result of the expansion of our High Plains System and the acquisition of the crude oil gathering assets included in the Rockies Natural Gas Business acquired in December 2014. This increase was almost entirely due to third-party volumes. Crude oil trucking volumes decreased 11 Mbpd, or 22%, during 2015 as more volumes were gathered on our High Plains Pipeline.

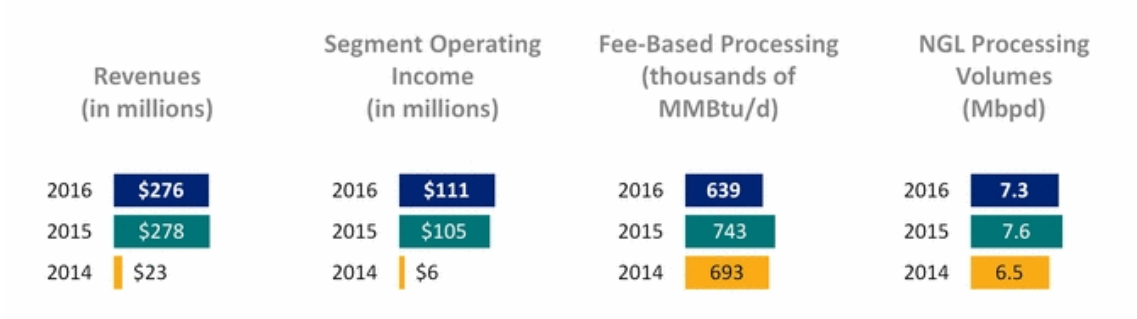
**FINANCIAL RESULTS.** Gathering revenues increased $204 million, or 151%, to $339 million in 2015 compared to $135 million in 2014 primarily due to the addition of natural gas gathering operations with the Rockies Natural Gas Assets as well as higher crude oil pipeline throughput on our High Plains Pipeline. These increases in gathering revenue were slightly offset by a decline in trucking revenues due to lower throughput volumes.

Operating expenses increased $47 million, or 65%, to $119 million in 2015 compared to $72 million in 2014, primarily related to costs associated with the Rockies Natural Gas Assets as well as the increased throughput on the High Plains System. The increase also includes an incremental expense of $6 million as compared to 2014 attributable to an accrual related to the remediation of the release of crude oil in a rural field northeast of Tioga, North Dakota that occurred in 2013 (the "Crude Oil Pipeline Release").

Depreciation and amortization expense increased $56 million, or 509%, to $67 million in 2015 compared to $11 million in 2014 primarily due to the Rockies Natural Gas Assets having an entire year of depreciation and amortization as well as growth projects being placed into service including the Connolly Gathering System.

## PROCESSING SEGMENT

### HIGHLIGHTS




Our Processing segment consists of the Vermillion processing complex, the Uinta Basin processing complex, the Blacks Fork processing complex and the Emigrant Trail processing complex. Approximately 45-50% of our plant production is currently supported by long-term, fee-based processing agreements with minimum volume commitments.

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

| | Years Ended December 31, | |
|---|---|---|
| | **2016** | **2015** |
| Revenues | | |
| NGLs processing revenues | **$ 98** | $ 96 |
| Fee-based processing revenues | **106** | 107 |
| Other processing revenues | **72** | 75 |
| Total Revenues | **276** | 278 |
| Costs and Expenses | | |
| Operating expenses | **120** | 125 |
| General and administrative expenses | **—** | 4 |
| Depreciation and amortization expenses | **45** | 44 |
| Processing Segment Operating Income | **$ 111** | $ 105 |
| **Volumes/Rates** | | |
| NGLs processing throughput (Mbpd) | **7.3** | 7.6 |
| Average keep-whole fee per barrel of NGLs | **$ 36.53** | $ 34.46 |
| Fee-based processing throughput (thousands of MMBtu/d) | **639** | 743 |
| Average fee-based processing revenue per MMBtu | **$ 0.45** | $ 0.39 |

### 2016 COMPARED TO 2015

**VOLUMES.** Fee-based processing throughput decreased 104 thousand MMBtu/d, or 14%, to 639 thousand MMBtu/d in 2016 as a result of lower natural gas production being delivered to our processing systems. NGLs processing throughput decreased 0.3 Mbpd, or 4%, to 7.3 Mbpd for 2016.

**FINANCIAL RESULTS.** Total processing revenues were $276 million in 2016, which remained relatively flat compared to 2015, and contributed approximately 23% to the Partnership's total revenues. Lower volumes during 2016 were primarily offset by higher minimum volume commitment revenues and continued benefits from system optimization. Operating expenses were $120 million in 2016. Depreciation and amortization expenses were $45 million in 2016.

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

| | Years Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Revenues | | |
| NGLs processing revenues | $ 96 | $ 7 |
| Fee-based processing revenues | 107 | 6 |
| Other processing revenues | 75 | 10 |
| Total Revenues | 278 | 23 |
| Costs and Expenses | | |
| Operating expenses | 125 | 12 |
| General and administrative expenses | 4 | 1 |
| Depreciation and amortization expenses | 44 | 4 |
| Processing Segment Operating Income | $ 105 | $ 6 |
| **Volumes/Rates** | | |
| NGLs processing throughput (Mbpd) | 7.6 | 6.5 |
| Average keep-whole fee per barrel of NGLs | $ 34.46 | $ 35.51 |
| Fee-based processing throughput (thousands of MMBtu/d) | 743 | 693 |
| Average fee-based processing revenue per MMBtu | $ 0.39 | $ 0.30 |

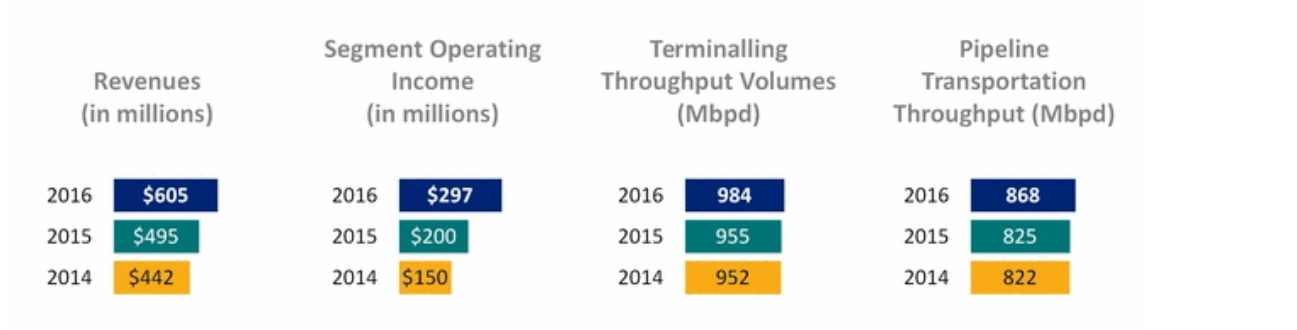
## 2015 COMPARED TO 2014

**VOLUMES.** Fee-based processing throughput increased 50 thousand MMBtu/d, or 7%, to 743 thousand MMBtu/d in 2015 and NGLs processing throughput increased 1.1 Mbpd, or 17%, to 7.6 Mbpd for the 2015 as a result of increased processing utilization of our complexes. The 2014 period only included the volumes beginning in December 2014 with the Rockies Natural Gas Business Acquisition and do not reflect the seasonality and other market impacts.

**FINANCIAL RESULTS.** Total processing revenues were $278 million in 2015. This contributed approximately 25% to the Partnership's total revenues. The increase in 2015 compared to 2014 is due to a full year of operations from the Rockies Natural Gas Assets in 2015 with a corresponding increase in expenses. Our operating expenses as well as our depreciation and amortization expenses increased during 2015 compared to 2014 as a result of the 2014 period only reflecting the expenses beginning in December 2014 with the Rockies Natural Gas Business Acquisition and are not comparable to the 2015 on an annualized basis due to seasonality and other fluctuations in processing volumes.

## TERMINALLING AND TRANSPORTATION SEGMENT

**HIGHLIGHTS**




Our Terminalling and Transportation segment consists of the Northwest Products Pipeline, which includes a regulated common carrier products pipeline running from Salt Lake City, Utah to Spokane, Washington and a jet fuel pipeline to the Salt Lake City International Airport; a regulated common carrier refined products pipeline system connecting Tesoro's Kenai refinery to Anchorage, Alaska; and crude oil and refined products terminals and storage facilities in the western and midwestern U.S.; marine terminals in California; a rail-car unloading facility in Washington; a petroleum coke handling and storage facility in Los Angeles; and other pipelines, which transport products and crude oil from Tesoro's refineries to nearby facilities in Salt Lake City and Los Angeles.

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016(a) | 2015(a) | 2014(a) |
| Revenues | | | |
| Terminalling revenues | **$ 480** | $ 377 | $ 333 |
| Pipeline transportation revenues | **125** | 118 | 109 |
| Total Revenues | **605** | 495 | 442 |
| Costs and Expenses | | | |
| Operating expenses (b) | **193** | 184 | 197 |
| General and administrative expenses | **31** | 35 | 29 |
| Depreciation and amortization expenses | **83** | 76 | 70 |
| Loss (gain) on asset disposals and impairments | **1** | — | (4) |
| Terminalling and Transportation Segment Operating Income | **$ 297** | $ 200 | $ 150 |
| **Volumes/Rates** | | | |
| Terminalling throughput (Mbpd) | **984** | 955 | 952 |
| Average terminalling revenue per barrel | **$ 1.33** | $ 1.08 | $ 0.96 |
| Pipeline transportation throughput (Mbpd) | **868** | 825 | 822 |
| Average pipeline transportation revenue per barrel | **$ 0.39** | $ 0.39 | $ 0.36 |

## 2016 COMPARED TO 2015

**VOLUMES.** Terminalling throughput increased 29 Mbpd, or 3% and pipeline transportation throughput increased 43 Mbpd, or 5% in 2016 compared to 2015 primarily as a result of stronger customer demand, terminalling assets from the Alaska Storage and Terminalling Assets acquisition and organic growth projects adding new capabilities to our system.

**FINANCIAL RESULTS.** Revenues increased $110 million, or 22%, to $605 million in 2016 compared to $495 million in 2015 primarily as a result of the commercial storage agreements executed with Tesoro in connection with the LA Storage and Handling Assets and Alaska Storage and Terminalling Assets, as well as increased throughput volumes. The increase in revenues was partially offset by a slight increase in operating expenses of $9 million, or 5%, to $193 million in 2016 compared to $184 million in 2015 as a result of the higher throughput volumes.

## 2015 COMPARED TO 2014

**VOLUMES.** Terminalling throughput increased 3 Mbpd in 2015 compared to 2014 primarily as a result of higher volumes at our southern California terminals and the completion of the Anacortes Light Products Truck Rack, which was partially offset by lower volumes at our Salt Lake City terminal. Pipeline transportation throughput increased 3 Mbpd in 2015 compared to 2014 primarily due to increased utilization of the southern California transportation pipeline system and performance enhancements.

**FINANCIAL RESULTS.** Revenues increased $53 million, or 12%, to $495 million in 2015 compared to $442 million in 2014 primarily as a result of the higher volumes at our southern California terminals and the commercial agreements executed with Tesoro at the time of the West Coast Logistics Assets Acquisition. Operating expenses decreased $13 million, or 7%, to $184 million in 2015 compared to $197 million in 2014 primarily as a result of enhanced operational efficiency and asset utilization.

(a) Our Predecessors did not record revenue for transactions with Tesoro in the Terminalling and Transportation segment for Predecessors' assets acquired in the Acquisitions from Tesoro prior to the effective date of each acquisition, except for the RCA tariffs charged to Tesoro on the refined products pipeline included in the acquisition of the West Coast Logistics Assets.

(b) Operating expenses include net imbalance settlement gains of $3 million, $4 million and $10 million in the years ended December 31, 2016, 2015 and 2014, respectively.

## CAPITAL RESOURCES AND LIQUIDITY

Our primary cash requirements relate to funding capital expenditures, 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 Revolving 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.

### 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.

**ATM PROGRAMS.** On June 25, 2014, we filed a prospectus supplement to our shelf registration statement filed with the Securities and Exchange Commission ("SEC") in 2012, authorizing the continuous issuance of up to an aggregate of $200 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 "2014 ATM Program"). The 2014 ATM Program expired during the second quarter of 2015. For the year ended December 31, 2014 , we issued 199,400 common units for net proceeds of approximately $14 million. During the year ended December 31, 2015, we issued an aggregate of 819,513 common units under our 2014 ATM Program, generating proceeds of approximately $46 million before issuance costs. The net proceeds from sales under the 2014 ATM Program were used for general partnership purposes, which included debt repayment, future acquisitions, capital expenditures and additions to working capital.

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 "2015 ATM Program"). During the years ended December 31, 2016 and 2015, we issued an aggregate of 1,492,637 and 1,093,483 common units, respectively, under our 2015 ATM Program, generating proceeds of approximately $72 million and $57 million, respectively, before issuance costs. The net proceeds from sales under the 2015 ATM Program were used for general partnership purposes, which included debt repayment, future acquisitions, capital expenditures and additions to working capital.

We paid fees of approximately $1 million related to the issuance of units under these programs for the year ended December 31, 2016.

### 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. In connection with the North Dakota Gathering and Processing Assets acquisition, our general partner agreed to ratably reduce its quarterly distributions with respect to incentive distribution rights by $100 million with respect to distributions during 2017 and 2018.

### QUARTERLY DISTRIBUTIONS

| Quarter Ended | Total Quarterly Distribution Per Unit | Total Quarterly Distribution Per Unit, Annualized | Total Cash Distribution (in millions) | Date of Distribution |
|---|---|---|---|---|
| **December 31, 2016** | **$ 0.9100** | **$ 3.64** | **$ 140** | **February 14, 2017** |
| September 30, 2016 | 0.8750 | 3.50 | 131 | November 14, 2016 |
| June 30, 2016 | 0.8420 | 3.37 | 123 | August 12, 2016 |
| March 31, 2016 | 0.8100 | 3.24 | 108 | May 13, 2016 |
| December 31, 2015 | 0.7800 | 3.12 | 98 | February 12, 2016 |
| September 30, 2015 | 0.7500 | 3.00 | 86 | November 13, 2015 |
| June 30, 2015 | 0.7225 | 2.89 | 81 | August 14, 2015 |
| March 31, 2015 | 0.6950 | 2.78 | 70 | May 15, 2015 |

We intend to pay a minimum quarterly distribution of at least $0.3375 per unit per quarter, which equates to approximately $35 million per quarter, or $142 million per year, based on the number of common and general partner units outstanding as of December 31, 2016. We do not have a legal obligation to pay this distribution.

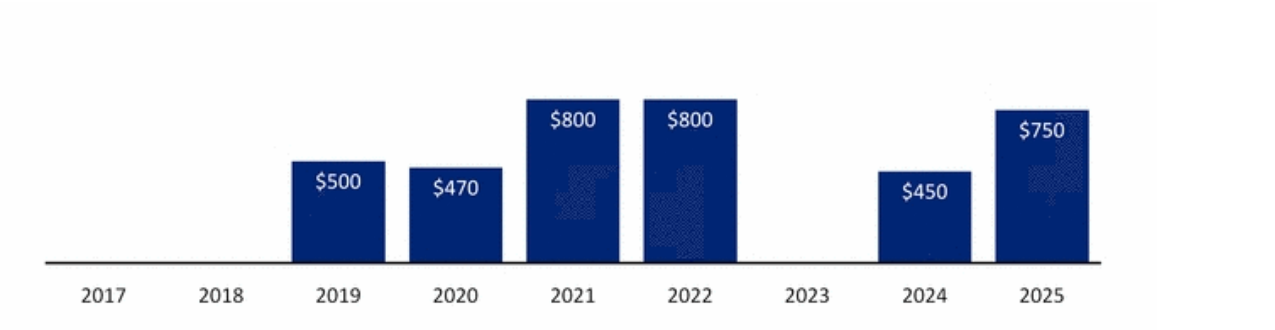
## DEBT OVERVIEW

### TOTAL DEBT

| | December 31, | |
|---|---|---|
| Debt, including current maturities: | **2016** | **2015** |
| Revolving Credit Facility | **$ 330** | $ 305 |
| Dropdown Credit Facility | **—** | — |
| TLLP Term Loan | **—** | 250 |
| 5.500% Senior Notes due 2019 | **500** | 500 |
| 5.875% Senior Notes due 2020 (a) | **470** | 470 |
| 6.125% Senior Notes due 2021 (a) | **800** | 550 |
| 6.250% Senior Notes due 2022 | **800** | 800 |
| 6.375% Senior Notes due 2024 | **450** | — |
| 5.250% Senior Notes due 2025 | **750** | — |
| Capital lease obligations and other | **9** | 8 |
| Total Debt | **4,109** | 2,883 |
| Unamortized Issuance Costs (a) | **(55)** | (39) |
| Debt, Net of Unamortized Issuance Costs | **$ 4,054** | $ 2,844 |

(a) Unamortized premiums of $4 million associated with these senior notes are included in unamortized issuance costs at both December 31, 2016 and 2015.

**SENIOR NOTES BY MATURITY (in millions)**




## CREDIT FACILITIES

Based upon the guidelines of our current Revolving Credit Facility, 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 weighted average interest rate for borrowings under our Revolving Credit Facility was 2.76% at December 31, 2016. The Revolving Credit Facility is scheduled to mature on January 29, 2021.

**EXPENSES AND FEES OF OUR CREDIT FACILITIES**

| Credit Facility | 30 day Eurodollar (LIBOR) Rate at December 31, 2016 | Eurodollar Margin | Base Rate | Base Rate Margin | Commitment Fee (unused portion) |
|---|---|---|---|---|---|
| Revolving Credit Facility (a) | 0.77% | 2.00% | 3.75% | 1.00% | 0.375% |
| Dropdown Credit Facility (a) | 0.77% | 2.01% | 3.75% | 1.01% | 0.375% |

(a) We have the option to elect if the borrowings will bear interest at either a base rate pus the base rate margin, or a Eurodollar rate, for the applicable period, plus the Eurodollar margin 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.

On January 29, 2016, we amended our existing secured Revolving Credit Facility. As a result of the amendment, we decreased the aggregate available facility limit from $900 million to $600 million and improved terms relating to pricing and financial covenants. Additionally on January 29, 2016, we syndicated the new $1.0 billion Dropdown Credit Facility. This facility provides us a flexible capital structure with a segregated source of financing for future asset acquisitions including transactions with Tesoro. The primary use of proceeds under this new facility will be to fund asset acquisitions. The terms, covenants and restrictions under this facility are substantially the same with our amended secured Revolving Credit Facility. See further discussion in Note 8 to our consolidated financial statements in Item 8.

## COVENANTS

The Revolving Credit Facility, Dropdown Credit Facility and senior notes contain covenants that may, among other things, limit or restrict our ability (as well as the ability of our subsidiaries) to:

- incur additional indebtedness and incur liens on assets to secure certain debt;
- pay and make certain restricted payments;
- make distributions from our subsidiaries;
- dispose of assets in excess of an annual threshold amount;
- in the case of the Revolving Credit Facility, make certain amendments, modifications or supplements to organization documents and material contracts;
- in the case of the Revolving Credit Facility, engage in certain business activities;
- engage in certain mergers or consolidations and transfers of assets; and
- enter into non-arm's-length transactions with affiliates.

We do not believe that these limitations will restrict our ability to pay distributions. Additionally, the Revolving Credit Facility contains covenants that require us to maintain certain interest coverage and leverage ratios. We submit compliance certifications to the bank quarterly, and we were in compliance with our debt covenants as of and for the year ended December 31, 2016.

## SENIOR NOTES ISSUANCES

**5.250% SENIOR NOTES DUE 2025.** On December 2, 2016, we completed a registered offering of $750 million aggregate principal amount of the 5.250% Senior Notes due in 2025. The proceeds from this offering were used to pay amounts outstanding under the Dropdown Credit Facility.

The 2025 Senior Notes have no sinking fund requirements. We may redeem some or all of the 2025 Notes prior to January 15, 2021, at a make-whole price, plus any accrued and unpaid interest. On or after January 15, 2021, the 2025 Notes may be redeemed at premiums equal to 2.625% through January 15, 2022; 1.313% through January 15, 2023; 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 105.250% of face value with proceeds from certain equity issuances through January 15, 2020. The 2025 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.

**6.125% SENIOR NOTES DUE 2021 AND 6.375% SENIOR NOTES DUE 2024.** 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 the 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. 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. 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.

## 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.

## DEBT REPAYMENTS

On February 3, 2016, we paid the full amount of the unsecured term loan facility (the "Unsecured Term Loan Facility"), including accrued interest, with proceeds drawn from the 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.

## SOURCES AND USES OF CASH

### COMPONENTS OF CASH FLOWS (in millions)

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 (a) | 2015 (a) | 2014 (a) |
| **Cash Flows From (Used In):** | | | |
| Operating Activities | **$ 498** | $ 436 | $ 165 |
| Investing Activities | **(318)** | (389) | (2,690) |
| Financing Activities | **492** | (50) | 2,521 |
| Increase (Decrease) in Cash and Cash Equivalents | **$ 672** | $ (3) | $ (4) |

(a) Includes the historical results related to the Partnership and Predecessors for the years ended December 31, 2016, 2015 and 2014.

## 2016 COMPARED TO 2015

Net cash from operating activities increased $62 million to $498 million in 2016 from $436 million in 2015. The increase in net cash from operating activities was primarily due to a significant contribution of operating income from the Terminalling and Transportation segment driven by commercial agreements executed in connection with the LA Storage and Handling Assets and Alaska Storage and Terminalling Assets acquisitions.

Net cash used in investing activities decreased $71 million to $318 million in 2016 compared to $389 million in 2015. The decrease was primarily driven by a decline in the amounts spent on capital expenditure projects during 2016. See "Capital Expenditures" below for a discussion of the various maintenance and growth projects in 2016. This decrease was partially offset by cash used for acquisitions related to the Alaska Storage and Terminalling Assets acquisition and deposit for the North Dakota Gathering and Processing Assets.

Net cash from financing activities during 2016 totaled $492 million as compared to net cash used in financing activities of $50 million in 2015. The change of $542 million was primarily due to a $1.2 billion increase in the proceeds from debt offerings partially offset by the $251 million repayment of the term loan facility, which is discussed in the "Debt Overview" above. In addition, proceeds from issuance of common units and general partner units increased $265 million in 2016. Partially offsetting the items contributing to financing activities were an increase to distributions in connection with acquisitions of $510 million with both the Alaska Storage and Terminalling Assets and Northern California Terminalling and Storage Assets acquisitions occurring in 2016 compared to the LA Storage and Handling Assets occurring in 2015. Quarterly distributions to unitholders and the general partner also increased $153 million.

## 2015 COMPARED TO 2014

Net cash from operating activities increased $271 million to $436 million in 2015 from $165 million in 2014. The increase in net cash from operating activities was primarily due to a significant contribution of operating income from the Rockies Natural Gas Business Acquisition for an entire year as well as incremental cash flow from growth on the High Plains System and commercial agreements executed in connection with the West Coast Logistics Assets Acquisition.

Net cash used in investing activities decreased $2.3 billion to $389 million in 2015 compared to $2.7 billion in 2014. The decrease was primarily driven by the cash paid for the Rockies Natural Gas Business of $2.5 billion in 2014. This decrease was partially offset by higher capital expenditures in 2015 compared to 2014 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 2015.

Net cash used in financing activities during 2015 totaled $50 million as compared to net cash from financing activities of $2.5 billion in 2014. The change of $2.6 billion was primarily due to financing activities in 2014, which included the net proceeds of $1.4 billion resulting from the public offering of 2.1 million common units representing limited partner interests and the registered public offering of 23.0 million common units in connection with the Rockies Natural Gas Business Acquisition and $1.3 billion of aggregate principal senior notes, completed in a private offering Senior Notes Offering. We paid higher quarterly cash distributions totaling $308 million during 2015 compared to $183 million paid in 2014. Additionally, we paid $22 million in distributions to the common public unitholders of QEPM and QEPM's subsidiaries during 2015.

Historically, the Predecessors' sources of liquidity included cash generated from operations and funding from Tesoro. Cash receipts were deposited in Tesoro's bank accounts and all cash disbursements were made from those accounts. The Sponsor contribution of $119 million, $116 million and $53 million included in cash from financing activities in 2016, 2015 and 2014, respectively, funded the cash portion of the net loss for the Predecessors.

## 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 Facility and issuances of additional debt and equity securities, as needed.

**2016 CAPITAL EXPENDITURES.** During 2016, we spent $198 million, net of $11 million in reimbursements from entities including Tesoro, on growth capital projects and $42 million, net of $22 million in reimbursements from entities including Tesoro, on maintenance capital projects.

**2017 EXPECTED CAPITAL EXPENDITURES.** We estimate that our expected 2017 capital expenditures will be approximately $325 million, or $295 million net of reimbursements from entities including Tesoro, with whom we contract to provide services. We continuously evaluate our capital expenditures in light of conditions in the market environment and business requirements.

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.

**MAJOR CAPITAL PROJECTS IN PROCESS OR UNDER DEVELOPMENT (in millions)**

| Major Projects | Total Project Expected Capital Expenditures | Actual 2016 Capital Expenditures |
|---|---|---|
| **Gathering Segment:** | | |
| Uinta Compression (a) | $ 50 - 60 | $ 36 |
| Bakken Area Storage Hub (b) | 25 - 30 | 5 |
| High Plains Pipeline Expansion (c) | 20 - 30 | 12 |
| **Terminalling and Transporting Segment:** | | |
| Los Angeles Refinery Interconnect Pipeline System (d) | 150 - 200 | — |
| Terminal Expansions (e) | 30 - 40 | 14 |
| Avon Wharf Project (f) | 185-195 | 58 |

(a) 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.
(b) 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 during the first quarter of 2016, storage capacity has grown to over one million barrels. Amounts shown above for capital expenditures represent actual amounts spent on this completed project.
(c) 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.
(d) 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.
(e) Projects to increase the throughput capacity and service capabilities at our crude oil and refined products terminals.
(f) In connection with the Northern California Terminalling and Storage Assets acquisition, we acquired the Avon Wharf in Martinez, California. Our Predecessor's regulatory and compliance project for the Avon Wharf was required under the California building code for Marine Oil Terminal Engineering and Maintenance Standards ("MOTEMS"). The project replaces the marine berth with a MOTEMS compliant structure that will improve clean product movements. The project is nearly complete with expected remaining capital expenditures of $8 million, which will be reimbursed by Tesoro.

## LONG-TERM COMMITMENTS

We have numerous contractual commitments for purchases associated with the operation of our assets, our debt service and our operating and capital leases (see Notes 8 and 10 to our consolidated financial statements in Item 8). We also have minimum contractual spending requirements for certain capital projects.

### SUMMARY OF CONTRACTUAL OBLIGATIONS (in millions)

| Contractual Obligation | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Long-term debt obligations (a) | $ 232 | $ 232 | $ 726 | $ 671 | $ 1,287 | $ 2,225 | $ 5,373 |
| Capital lease obligations (b) | 1 | 1 | 1 | 1 | 1 | 7 | 12 |
| Operating lease obligations (c) | 16 | 12 | 11 | 9 | 8 | 70 | 126 |
| Other purchase obligations (d) | 86 | 86 | 86 | 87 | 49 | — | 394 |
| Capital expenditure obligations (e) | 82 | — | — | — | — | — | 82 |
| **Total Contractual Obligations** | **$ 417** | **$ 331** | **$ 824** | **$ 768** | **$ 1,345** | **$ 2,302** | **$ 5,987** |

(a) Includes maturities of principal and interest payments. Amounts and timing may be different from our estimated commitments due to potential voluntary debt prepayments and borrowings.
(b) Capital lease obligations include amounts classified as interest.
(c) Minimum operating lease payments for operating leases having initial or remaining non-cancellable lease terms in excess of one year primarily related to our truck vehicle leases and leases for pipelines, terminals, pump stations and property leases.
(d) Purchase obligations include enforceable and legally binding service agreement commitments that meet any of the following criteria: (1) they are non-cancellable, (2) we would incur a penalty if the agreement was canceled, or (3) we must make specified minimum payments even if we do not take delivery of the contracted products or services. If we can unilaterally terminate the agreement simply by providing a certain number of days' notice or by paying a termination fee, we have included the termination fee or the amount that would be paid over the notice period. Contracts that can be unilaterally terminated without a penalty are not included. Future purchase obligations primarily include NGLs transportation costs, fractionation fees, and fixed charges under the Third Amended and Restated Omnibus Agreement ("Amended Omnibus Agreement"), and the Secondment and Logistics Services Agreement. Our Amended Omnibus Agreement remains in effect between the applicable parties until a change in control of the Partnership. As we are unable to estimate the termination of the omnibus agreement, we have included the fees for each of the five years following December 31, 2016 for the Amended Omnibus Agreement for disclosure purposes in the table above.
(e) Minimum contractual spending requirements for certain capital projects.

We also have other noncurrent liabilities pertaining to our environmental liabilities and asset retirement obligations. With the exception of amounts classified as current, there is uncertainty as to the timing of future cash flows related to these obligations. As such, we have excluded these future cash flows from the table above. See additional information on environmental liabilities and asset retirement obligations in Note 10 and Note 1, respectively, to our consolidated financial statements in Item 8.

## OFF BALANCE SHEET ARRANGEMENTS

We have not entered into any transactions, agreements or other contractual arrangements, other than our leasing arrangements described in Note 10 to our consolidated financial statements in Item 8 that would result in off-balance sheet liabilities.

## ENVIRONMENTAL AND OTHER MATTERS

**ENVIRONMENTAL REGULATION** We are subject to extensive federal, state and local environmental laws and regulations. These laws, which change frequently, regulate the discharge of materials into the environment or otherwise relate to protection of the environment. Compliance with these laws and regulations may require us to remediate environmental damage from any discharge of petroleum, 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. Under the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement Tesoro indemnifies us for certain matters, including environmental, title and tax matters associated with the ownership of our assets at or before the closing of the Initial Offering and subsequent acquisitions from Tesoro.

**ENVIRONMENTAL LIABILITIES AND LEGAL** Contamination resulting from spills of crude oil, natural gas and refined products is not unusual within the terminalling, pipeline, gathering or processing industries. Historic spills at certain of our assets as a result of past operations have resulted in contamination of the environment, including soils and groundwater. Site conditions, including soils and groundwater, are being evaluated at our properties where releases of hydrocarbons and other wastes have occurred. A number of our properties have known hydrocarbon or other hazardous material contamination in the soil and groundwater. See below for our discussion of the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement for more information regarding the indemnification of certain environmental matters provided to us by Tesoro.

The Partnership has been party to various environmental matters arising in the ordinary course of business. The outcome of these matters cannot always be accurately predicted, but the Partnership recognizes liabilities for these matters based on estimates and applicable accounting guidelines and principles. We have accrued liabilities for these expenses and believe these accruals are adequate based on current information and projections that can be reasonably estimated. Our environmental accruals are 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 accruals for these environmental expenditures totaled $22 million and $33 million at December 31, 2016 and 2015, respectively.

**TIOGA, NORTH DAKOTA CRUDE OIL PIPELINE RELEASE** In September 2013, the Partnership responded to the Crude Oil Pipeline Release. The environmental liabilities related to the Crude Oil Pipeline Release include amounts estimated for remediation activities that will be conducted during the next few years to restore the site for agricultural use. We accrued an additional $7 million during the year ended December 31, 2016, to reflect improved scope definition and estimates, which resulted in an increase in the total estimated cost associated with the project. This incident was covered by our pollution liability insurance policy, subject to a $1 million deductible and a $25 million loss limit in place at that time. Pursuant to this policy, there were no insurance recovery receivables related to the Crude Oil Pipeline Release at both December 31, 2016 and 2015, and $18 million at December 31, 2014. The estimated remediation costs of $73 million exceeded our policy loss limit by $48 million as of December 31, 2015. We received no insurance proceeds for the year ended December 31, 2016, and $18 million and $7 million in reimbursement of costs incurred during the years ended December 31, 2015 and 2014, respectively.

See Note 10 to our consolidated financial statements in Item 8 for additional information regarding our environmental liabilities and legal proceedings.

**TESORO INDEMNIFICATION** Under the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement, Tesoro indemnifies us for certain matters, including environmental, title and tax matters associated with the ownership of our assets at or before the closing of the Initial Offering and the subsequent Acquisitions from Tesoro. See Note 3 to our consolidated financial statements in Item 8 for additional information regarding our Amended Omnibus Agreement and the Carson Assets Indemnity Agreement.

## ACCOUNTING STANDARDS

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies and recent accounting developments are described in Note 1 to our consolidated financial statements in Item 8. We prepare our financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates. We believe that the following discussion of policies to be the most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments.

**IMPAIRMENT OF LONG-LIVED ASSETS** Long-lived assets (which include property, plant, and equipment and intangible assets) are evaluated for potential impairment when an asset disposition is probable or when there are indicators of impairment (for example, current period operating losses combined with a history of operating losses) and, if so, assessing whether the asset net book values are recoverable from estimated future undiscounted cash flows. The actual amount of an impairment loss to be recorded, if any, is equal to the amount by which the asset's net book value exceeds its fair market value. Fair market value is based on the present values of estimated future cash flows in the absence of quoted market prices. Estimates of future cash flows and fair market values of assets require subjective assumptions with regard to several factors, including an assessment of global market conditions, future operating results and forecasts of the remaining useful lives of the assets. Actual results could

differ from those estimates. Providing sensitivity analysis if other assumptions were used in performing the impairment evaluations is not practicable due to the significant number of assumptions involved in the estimates.

**GOODWILL.** Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired in a business combination. Goodwill acquired in a business combination is not amortized, but instead tested for impairment at least annually or more frequently should an event occur or circumstances indicate that the carrying amount may be impaired. Such events or circumstances may be a significant change in business climate, economic and industry trends, legal factors, negative operating performance indicators, significant competition, changes in strategy, or disposition of a reporting unit or a portion thereof. Goodwill impairment testing is performed at the reporting unit level on November 1 of each year and when circumstances change that might indicate impairment.

We test goodwill for impairment by performing an optional qualitative assessment process and/or using a two-step quantitative assessment process. If we choose to perform a qualitative assessment process and determine it is more likely than not (that is, a likelihood of more than 50 percent) that the carrying value of the net assets is more than the fair value of the reporting unit, the two-step quantitative assessment process is then performed; otherwise, no further testing is required. We may elect not to perform the qualitative assessment process and, instead, proceed directly to the two step quantitative assessment process. For reporting units where the two-step quantitative assessment process is performed, the first step involves comparing the carrying value of net assets, including goodwill, to the fair value of the reporting unit. If the fair value exceeds its carrying amount, goodwill is not considered impaired and the second step of the process is unnecessary. If the carrying amount of a reporting unit's goodwill exceeds its fair value, the second step measures the impairment loss, if any.

We elected to perform our annual goodwill impairment analysis using a two-step quantitative assessments process on $117 million of goodwill recorded in five reporting units. As part of our two-step quantitative goodwill impairment process for the five reporting units, we engaged a third-party appraisal firm to assist in the determination of estimated fair value for each reporting unit. This determination includes estimating the fair value of each reporting unit using both the income and market approaches. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows and discount rates. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping. The determination of the fair value of the reporting units requires us to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to, the selection of appropriate peer group companies, control premiums appropriate for acquisitions in the industries in which we compete, the discount rates, terminal growth rates, and forecasts of revenue, operating income, depreciation and amortization and capital expenditures.

We determined that no impairment charges resulted from our November 1, 2016 goodwill impairment assessment. Furthermore, the fair value of each of the five reporting units tested in step one of the goodwill impairment test were materially in excess of the carrying value, and as such, we were not required to perform step two.

**ENVIRONMENTAL LIABILITIES.** At December 31, 2016, our total environmental liabilities included in other current liabilities and other noncurrent liabilities were $22 million. We record environmental liabilities when environmental assessments and/or proposed environmental remedies are probable and can be reasonably estimated. Usually, the timing of our accruals coincides with assessing the liability and then completing a feasibility study or committing to a formal plan of action. When we complete our analysis or when we commit to a plan of action, we accrue a liability based on the minimum range of the expected costs, unless we consider another amount more likely. We base our cost estimates on the extent of remedial actions required by applicable governing agencies, experience gained from similar environmental projects and the amounts to be paid by other responsible parties.

Accruals for our environmental liabilities require judgment due to the uncertainties related to the magnitude of the liability and timing of the remediation effort. Our environmental liability estimates are subject to change due to potential changes in environmental laws, regulations or interpretations, additional information related to the extent and nature of the liability, and potential improvements in remediation technologies. We do not discount our estimated liabilities to present value.

As of December 31, 2016, we carry a pollution liability insurance policy, which is subject to a $1 million deductible ($5 million pipeline deductible) and a $150 million loss limit. We record insurance recoveries during the year when recovery is probable and can be reasonably estimated.

**ACQUISITIONS.** We use the acquisition method of accounting for the recognition of assets acquired and liabilities assumed with acquisitions, other than a combination under common control, at their estimated fair values as of the date of acquisition. Any excess consideration transferred over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is required in estimating the fair value of assets acquired. As a result, in the case of significant acquisitions, we obtain the assistance of third-party valuation specialists in estimating fair values of tangible and intangible assets based on available historical information and on expectations and assumptions about the future, considering the perspective of marketplace participants. While management believes those expectations and assumptions are reasonable, they are inherently

uncertain. Unanticipated market or macroeconomic events and circumstances may occur, which could affect the accuracy or validity of the estimates and assumptions.

### NEW ACCOUNTING STANDARDS AND DISCLOSURES

New accounting standards and disclosures are discussed in Note 1 to our consolidated financial statements in Item 8.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices. As we do not own the refined products, 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 designed to substantially mitigate our exposure to increases in diesel fuel prices and the cost of other supplies used in our business. As part of our acquisition of the North Dakota Gathering and Processing Assets, we acquired certain natural gas gathering and processing contracts structured as Percent of Proceeds ("POP") arrangements. Under these POP arrangements, we gather and process the producers' natural gas and retain and market a portion of the natural gas and NGLs and remit a percentage of the proceeds to the producer. Under these arrangements, we will have exposure to fluctuations in commodity prices; however, this exposure is not expected to be material to our results of operations. Also, our exposure to commodity price risk related to imbalance gains and losses or to diesel fuel or other supply costs is not expected to be material to our results of our operations, financial position, and cash flows and we do not intend to hedge our exposure.

We are exposed to 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 hedge our exposure using 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 immaterial to our consolidated operating income. Actual results may differ from our expectation above.

Under a keep-whole agreement, normally a producer transfers title to the NGLs produced during gas processing, and the processor, in exchange, delivers to the producer natural gas with a BTU content equivalent to the NGLs removed. We have entered into an agreement with Tesoro to transfer the market risk associated with the purchase of natural gas. See Note 3 to our consolidated financial statements in Item 8 for additional information on our keep-whole agreement.

### INTEREST RATE RISK

Our use of fixed or variable rate debt directly exposes us to interest rate risk. 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 our current fixed rate debt may be higher than the current market. Variable-rate debt, such as borrowings under our Revolving Credit Facility, exposes us to short-term changes in market rates that impact our interest expense. The fair value of our debt was estimated primarily using quoted market prices. The carrying and fair values of our debt were approximately $4.1 billion and $4.3 billion at December 31, 2016, respectively, and approximately $2.9 billion and $2.8 billion for both the carrying and fair values at December 31, 2015. These carrying and fair values of our debt do not consider the unamortized issuance costs, which are netted against our total debt. 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 would change annual interest expense by less than $1 million under our Revolving Credit Facility and would have no impact under the Dropdown Credit Facility at December 31, 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. We currently do not use interest rate swaps to manage our exposure to interest rate risk; however, we continue to monitor the market and our exposure, and may in the future enter into these transactions to mitigate risk. We believe in the short-term we have acceptable interest rate risk and continue to monitor the risk on our long-term obligations. There were no borrowings outstanding under the Dropdown Credit Facility and $330 million borrowings outstanding under the Revolving Credit Facility as of December 31, 2016.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Tesoro Logistics GP, LLC and
Unitholders of Tesoro Logistics LP

We have audited the accompanying consolidated balance sheets of Tesoro Logistics LP as of December 31, 2016 and 2015, and the related consolidated statements of operations, partners' equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tesoro Logistics LP at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tesoro Logistics LP's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), and our report dated February 21, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Antonio, Texas
February 21, 2017

## TESORO LOGISTICS LP
## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Note | Years Ended December 31, 2016 (a) | 2015 (a) | 2014 (a) |
|---|---|---|---|---|
| | | (In millions, except per unit amounts) | | |
| Revenues | | | | |
| Affiliate | 3 | $ 715 | $ 615 | $ 497 |
| Third-party | | 505 | 497 | 103 |
| Total Revenues | | 1,220 | 1,112 | 600 |
| Costs and Expenses: | | | | |
| Operating expenses | | 471 | 468 | 324 |
| Imbalance settlement gains, net and reimbursements | | (27) | (40) | (43) |
| General and administrative expenses | | 95 | 103 | 74 |
| Depreciation and amortization expenses | | 190 | 187 | 85 |
| Loss (gain) on asset disposals and impairments | | 4 | 1 | (4) |
| Operating Income | | 487 | 393 | 164 |
| Interest and financing costs, net | | (191) | (150) | (109) |
| Equity in earnings of equity method investments | 6 | 13 | 7 | 1 |
| Other Income, net | | 6 | — | — |
| Earnings Before Income Taxes | | 315 | 250 | 56 |
| Income tax expense | | — | 1 | — |
| Net Earnings | | $ 315 | $ 249 | $ 56 |
| Loss attributable to Predecessors | | $ 24 | $ 43 | $ 46 |
| Net earnings attributable to noncontrolling interest | | — | (20) | (3) |
| Net earnings attributable to partners | | 339 | 272 | 99 |
| General partner's interest in net earnings, including incentive distribution rights | | (152) | (73) | (43) |
| Limited partners' interest in net earnings | | $ 187 | $ 199 | $ 56 |
| Net earnings per limited partner unit: | | | | |
| Common - basic | | $ 1.87 | $ 2.33 | $ 0.96 |
| Common - diluted | | $ 1.87 | $ 2.33 | $ 0.96 |
| Subordinated - basic and diluted | | $ — | $ — | $ 0.62 |
| Weighted average limited partner units outstanding: | | | | |
| Common units - basic | | 98.2 | 84.7 | 54.2 |
| Common units - diluted | | 98.2 | 84.8 | 54.2 |
| Subordinated units - basic and diluted | | — | — | 5.6 |
| Cash distributions paid per unit | | $ 3.3070 | $ 2.8350 | $ 2.4125 |

(a) All periods include the historical results of the Predecessors. See Notes 1 and 2 for further discussion.

The accompanying notes are an integral part of these consolidated financial statements.

## TESORO LOGISTICS LP
## CONSOLIDATED BALANCE SHEETS

| | Note | December 31, 2016 | December 31, 2015 (a) |
|---|---|---|---|
| | | (In millions, except unit amounts) | |
| **ASSETS** | | | |
| Current Assets | | | |
| Cash and cash equivalents | | **$ 688** | $ 16 |
| Receivables, net of allowance for doubtful accounts | | | |
| Trade | | **129** | 139 |
| Affiliate | | **101** | 85 |
| Prepayments and other current assets | | **20** | 12 |
| Total Current Assets | | **938** | 252 |
| Property, Plant, and Equipment, Net | **4** | **3,444** | 3,681 |
| Acquired Intangibles, Net | **5** | **947** | 976 |
| Goodwill | **5** | **117** | 130 |
| Equity Method Investments | **6** | **337** | 58 |
| Other Noncurrent Assets, Net | | **77** | 34 |
| Total Assets | | **$ 5,860** | $ 5,131 |
| **LIABILITIES AND EQUITY** | | | |
| Current Liabilities | | | |
| Accounts payable | | | |
| Trade | | **$ 69** | $ 106 |
| Affiliate | | **56** | 48 |
| Accrued interest and financing costs | | **42** | 31 |
| Other current liabilities | **7** | **45** | 61 |
| Total Current Liabilities | | **212** | 246 |
| Debt, Net of Unamortized Issuance Costs | **8** | **4,053** | 2,844 |
| Other Noncurrent Liabilities | | **53** | 58 |
| Total Liabilities | | **4,318** | 3,148 |
| Commitments and Contingencies | **10** | | |
| Equity | | | |
| Equity of Predecessors | | **—** | 205 |
| Common unitholders: **102,981,495** units issued and outstanding (93,478,326 in 2015) | | **1,608** | 1,707 |
| General partner: **2,100,900** units issued and outstanding (1,900,515 in 2015) | | **(66)** | (13) |
| Noncontrolling interest | | **—** | 84 |
| Total Equity | **11** | **1,542** | 1,983 |
| Total Liabilities and Equity | | **$ 5,860** | $ 5,131 |

(a) Adjusted to include the historical results of the Predecessors. See Notes 1 and 2 for further discussion.

The accompanying notes are an integral part of these consolidated financial statements.

## TESORO LOGISTICS LP
## CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

| | Equity of Predecessors (a) | Partnership | | | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|
| | | Common | Subordinated | General Partner | | |
| | (In millions) | | | | | |
| **Balance at December 31, 2013** | $ 189 | $ 459 | $ (161) | $ (53) | $ — | $ 434 |
| Sponsor contributions of equity to the Predecessors | 53 | — | — | — | — | 53 |
| Loss attributable to Predecessors | (46) | — | — | — | — | (46) |
| Net liabilities not assumed by Tesoro Logistics LP | 1 | — | — | — | — | 1 |
| Allocation of net assets acquired by the unitholders | (29) | 28 | — | 1 | — | — |
| Equity offering, net of issuance costs | — | 1,449 | — | 29 | — | 1,478 |
| Quarterly distributions to unitholders and general partner | — | (131) | (17) | (35) | — | (183) |
| Subordinated unit conversion | — | (165) | 165 | — | — | — |
| Distributions to unitholders and general partner related to acquisitions | — | (237) | — | (6) | — | (243) |
| Contributions | — | 27 | — | 2 | — | 29 |
| Net earnings excluding loss attributable to Predecessors | — | 43 | 13 | 43 | 3 | 102 |
| Noncontrolling interest acquired | — | — | — | — | 432 | 432 |
| Other | — | 1 | — | — | — | 1 |
| **Balance at December 31, 2014** | $ 168 | $ 1,474 | $ — | $ (19) | $ 435 | $ 2,058 |
| Sponsor contributions of equity to the Predecessors | 116 | — | — | — | — | 116 |
| Loss attributable to Predecessors | (43) | — | — | — | — | (43) |
| Net liabilities not assumed by Tesoro Logistics LP | 3 | — | — | — | — | 3 |
| Allocation of net assets acquired by the unitholders | (39) | 37 | — | 2 | — | — |
| Equity offering, net of issuance costs | — | 95 | — | 4 | — | 99 |
| Quarterly distributions to unitholders and general partner | — | (240) | — | (68) | (22) | (330) |
| Distributions to unitholders and general partner related to acquisitions | — | (235) | — | (15) | — | (250) |
| Contributions | — | 22 | — | 10 | — | 32 |
| Net earnings excluding loss attributable to Predecessors | — | 199 | — | 73 | 20 | 292 |
| QEPM Merger | — | 351 | — | — | (351) | — |
| Other | — | 4 | — | — | 2 | 6 |
| **Balance at December 31, 2015** | $ 205 | $ 1,707 | $ — | $ (13) | $ 84 | $ 1,983 |
| Sponsor contributions of equity to the Predecessors | 119 | — | — | — | — | 119 |
| Loss attributable to Predecessors | (24) | — | — | — | — | (24) |
| Net liabilities not assumed by Tesoro Logistics LP | 22 | — | — | — | — | 22 |
| Allocation of net assets acquired by the unitholders | (322) | 310 | — | 12 | — | — |
| Equity offering under ATM Program, net of issuance costs | — | 71 | — | — | — | 71 |
| Proceeds from issuance of units, net of issuance costs | — | 293 | — | — | — | 293 |
| Effect of deconsolidation of RGS | — | — | — | — | (84) | (84) |
| Quarterly distributions to unitholders and general partner | — | (324) | — | (137) | — | (461) |
| Distributions to unitholders and general partner related to acquisitions | — | (679) | — | (86) | — | (765) |
| Contributions | — | 39 | — | 3 | — | 42 |
| Net earnings excluding loss attributable to Predecessors | — | 187 | — | 152 | — | 339 |
| Other | — | 4 | — | 3 | — | 7 |
| **Balance at December 31, 2016** | **$ —** | **$ 1,608** | **$ —** | **$ (66)** | **$ —** | **$ 1,542** |

(a) Adjusted to include the historical results of the Predecessors. See Notes 1 and 2 for further discussion.

The accompanying notes are an integral part of these consolidated financial statements.

## TESORO LOGISTICS LP
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 (a) | 2015 (a) | 2014 (a) |
| | (In millions) | | |
| Cash Flows From (Used In) Operating Activities: | | | |
| Net earnings | **$ 315** | $ 249 | $ 56 |
| Adjustments to reconcile net earnings to net cash from operating activities: | | | |
| Depreciation and amortization expenses | **190** | 187 | 85 |
| Amortization of debt issuance costs | **9** | 8 | 6 |
| Unit-based compensation expense | **6** | 6 | 2 |
| Equity in earnings of equity method investments, net of distributions | **16** | 3 | (1) |
| Other non-cash operating activities | **6** | 2 | 4 |
| Changes in receivables | **(9)** | (21) | (8) |
| Changes in other current assets | **(5)** | (9) | 10 |
| Changes in current liabilities | **(22)** | (6) | 9 |
| Changes in other noncurrent assets and liabilities | **(8)** | 17 | 2 |
| Net cash from operating activities | **498** | 436 | 165 |
| Cash Flows From (Used In) Investing Activities: | | | |
| Capital expenditures | **(260)** | (383) | (221) |
| Acquisitions, net of cash acquired | **(30)** | (6) | (2,479) |
| Deposits for acquisitions | **(33)** | — | — |
| Other investing activities | **5** | — | 10 |
| Net cash used in investing activities | **(318)** | (389) | (2,690) |
| Cash Flows From (Used In) Financing Activities: | | | |
| Proceeds from debt offering | **1,451** | 250 | 1,300 |
| Proceeds from issuance of common units, net of issuance costs | **364** | 95 | 1,449 |
| Proceeds from issuance of general partner units, net of issuance costs | **—** | 4 | 29 |
| Quarterly distributions to common and subordinated unitholders | **(324)** | (240) | (148) |
| Quarterly distributions to general partner | **(137)** | (68) | (35) |
| Distributions to noncontrolling interest | **—** | (22) | — |
| Distributions in connection with acquisitions from Tesoro | **(760)** | (250) | (243) |
| Borrowings under revolving credit agreements | **1,451** | 476 | 646 |
| Repayments under revolving credit agreements | **(1,426)** | (431) | (386) |
| Repayments of long-term debt including capital leases | **(251)** | — | (130) |
| Sponsor contributions of equity to the Predecessors | **119** | 116 | 53 |
| Financing costs | **(7)** | — | (21) |
| Payments of debt issuance costs | **(21)** | (2) | (19) |
| Contribution from general partner | **4** | — | 8 |
| Capital contributions by affiliate | **29** | 22 | 18 |
| Net cash from (used in) financing activities | **492** | (50) | 2,521 |
| Increase (Decrease) in Cash and Cash Equivalents | **672** | (3) | (4) |
| Cash and Cash Equivalents, Beginning of Year | **16** | 19 | 23 |
| Cash and Cash Equivalents, End of Year | **$ 688** | $ 16 | $ 19 |

(a) Adjusted to include the historical results of the Predecessors. See Notes 1 and 2 for further discussion.

The accompanying notes are an integral part of these consolidated financial statements.

# NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## DESCRIPTION AND NATURE OF BUSINESS

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 in December 2010 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.

Our logistics assets are integral to the success of Tesoro's refining and marketing operations and are used to gather crude oil and to distribute, transport and store crude oil and refined products. We are a 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 as well as operate crude oil and refined products truck and marine terminals and provide crude oil and refined product storage capacity. In addition, we own and operate natural gas processing and fractionation complexes. Our assets are categorized into a Gathering segment, a Processing segment and a Terminalling and Transportation segment.

We generate revenue by charging fees for gathering crude oil and natural gas, for processing natural gas, for terminalling, transporting and storing crude oil, and refined products. We are generally not directly exposed to commodity price risk with respect to any of the crude oil, natural gas, NGLs or refined products that we handle, as part of our normal operations. However, we may be subject to nominal commodity risk exposure due to pipeline loss allowance provisions in many of our pipeline gathering and transportation contracts and a nominal amount of condensate retained as part of our natural gas gathering services. 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 movement 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, these risks indirectly influence our activities and results of operations over the long term through their effects on our customers' operations. In the years ended December 31, 2016, 2015 and 2014, 59%, 55% and 83% of our revenue was derived from Tesoro primarily under various long-term, fee-based commercial agreements that generally include minimum volume commitments. QEP Resources accounted for 13% and 16% of our total revenues in the years ended December 31, 2016 and 2015, respectively.

Our Gathering segment includes crude oil and natural gas pipeline gathering systems in the Bakken Shale/Williston Basin area of North Dakota and Montana (the "Bakken Region") and the Green River Basin, Uinta Basin and Vermillion Basin in the states of Utah, Colorado and Wyoming (the "Rockies Region"). Our Processing segment consists of gas processing and fractionation complexes. Our Terminalling and Transportation segment consists of the Northwest Products Pipeline, which includes a regulated common carrier products pipeline running from Salt Lake City, Utah to Spokane, Washington and a jet fuel pipeline to the Salt Lake City International Airport; a regulated common carrier refined products pipeline system connecting Tesoro's Kenai refinery to our terminals in Anchorage, Alaska; tankage and related equipment at Tesoro's Kenai refinery; and crude oil and refined products terminals and storage facilities in the western and midwestern U.S.; marine terminals in California; a rail-car unloading facility in Washington; a petroleum coke handling and storage facility in Los Angeles; and other pipelines, which transport products and crude oil from Tesoro's refineries to nearby facilities in Salt Lake City and Los Angeles.

## PRINCIPLES OF CONSOLIDATED AND BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of TLLP and its subsidiaries. All intercompany accounts and transactions have been eliminated. We have evaluated subsequent events through the filing of this Form 10-K. Any material subsequent events that occurred during this time have been properly recognized or disclosed in our financial statements.

In 2016, 2015 and 2014, we entered into various transactions with Tesoro and our general partner, TLGP, pursuant to which TLLP acquired from Tesoro the following:

- tankage, refined product storage, marine terminal terminalling and storage assets, pipelines, causeway and ancillary equipment located in Martinez, California (the "Northern California Terminalling and Storage Assets") effective November 21, 2016;
- all of the limited liability company interests in Tesoro Alaska Terminals, LLC, tankage, bulk tank farm, a truck rack and rail-loading facility, terminalling and other storage assets located in Kenai, Anchorage and Fairbanks, Alaska (the "Alaska Storage and Terminalling Assets") completed in two stages on July 1, 2016 and September 16, 2016;
- a crude oil and refined products storage tank facility located at Tesoro's Los Angeles refinery and a 50% fee interest in a pipeline that transports jet fuel from Tesoro's Los Angeles refinery to the Los Angeles International Airport (the "Los Angeles Storage and Handling Assets") effective November 12, 2015; and
- truck terminals, storage tanks, rail loading and unloading facilities and a refined products pipeline (the "West Coast Logistics Assets") effective July 1, 2014, for the terminals, storage tanks and rail facilities and effective September 30, 2014, for the refined products pipeline (the "West Coast Logistics Assets Acquisition").

These transactions are collectively referred to as "Acquisitions from Tesoro" and the related assets, liabilities and results of the operations are collectively referred to as the "Predecessors."

The Acquisitions from Tesoro were transfers between entities under common control. As an entity under common control with Tesoro, we record the assets that we acquire from Tesoro on our consolidated balance sheet at Tesoro's historical basis instead of fair value. Transfers of businesses between entities under common control are accounted for as if the transfer occurred at the beginning of the period, and prior periods are retrospectively adjusted to furnish comparative information. Accordingly, the accompanying financial statements and related notes of TLLP have been retrospectively adjusted to include the historical results of the assets acquired in the Acquisitions from Tesoro prior to the effective date of each acquisition. See Note 2 for additional information regarding the 2016 and 2015 acquisitions.

The accompanying financial statements and related notes present the combined financial position, results of operations, cash flows and equity of our Predecessors at historical cost. The financial statements of our Predecessors have been prepared from the separate records maintained by Tesoro and may not necessarily be indicative of the conditions that would have existed or the results of operations if our Predecessors had been operated as an unaffiliated entity. Our Predecessors did not record revenue for transactions with Tesoro in the Terminalling and Transportation segment, except for the Regulatory Commission of Alaska ("RCA") tariffs charged to Tesoro on the refined products pipeline included in the acquisition of the West Coast Logistics Assets. Accordingly, the revenues in our Predecessors' historical combined financial statements relate only to amounts received from third parties for these services and amounts received from affiliates with respect to transportation regulated by the RCA for the refined products pipeline included in the West Coast Logistics Assets Acquisition.

## USE OF ESTIMATES

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses reported and presented as of and for the periods ended. 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.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank deposits and low-risk short-term investments with original maturities of three months or less at the time of purchase. Cash equivalents are stated at cost, which approximates market value. We place our cash deposits and temporary cash investments with high credit quality financial institutions. At times, our cash and cash equivalents may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation insurance limit.

## RECEIVABLES

A portion of the Partnership's accounts receivable is due from Tesoro. Credit for non-affiliated customers is extended based on an evaluation of each customer's financial condition and in certain circumstances, collateral, such as letters of credit or guarantees, is required. Our allowance for doubtful accounts is based on various factors including current sales amounts, historical charge-offs and specific accounts identified as high risk. After reasonable efforts to collect the amounts have been exhausted, balances are deemed uncollectible and are charged against the allowance for doubtful accounts. Write-offs were immaterial in 2016, 2015 and 2014. The Company does not have any off-balance-sheet credit exposure related to its customers.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at the lower of historical cost less accumulated depreciation or fair value, if impaired. We capitalize all construction-related direct labor and material costs, as well as indirect construction costs. Indirect construction costs include general engineering and other allocated employee costs. Costs, including complete asset replacements and enhancements or upgrades that increase the original efficiency, productivity or capacity of property, plant and equipment, are also capitalized. The costs of repairs, minor replacements and maintenance projects that do not increase the original efficiency, productivity or capacity of property, plant and equipment are expensed as incurred. We capitalize interest as part of the cost of major projects during the construction period. Capitalized interest totaled $5 million, $9 million and $6 million during 2016, 2015 and 2014, respectively, and is recorded as a reduction to net interest and financing costs in our consolidated statements of operations.

We compute depreciation of property, plant and equipment using the straight-line method, based on the estimated useful life of three to 28 years and salvage value of each asset. When assets are placed into service, we make estimates with respect to their useful lives that we believe are reasonable. However, factors such as maintenance levels, economic conditions impacting the demand for these assets and regulatory or environmental requirements could cause us to change our estimates, thus impacting the future calculation of depreciation. We depreciate leasehold improvements and property acquired under capital leases over the lesser of the lease term or the economic life of the asset.

**ASSET RETIREMENT OBLIGATIONS.** We record asset retirement obligations ("AROs") at fair value in the period in which we have a legal obligation to incur costs, whether by government action or contractual arrangement, to retire a tangible asset and can make a reasonable estimate of the fair value of the liability. AROs are calculated based on the present value of the estimated removal and other closure costs using our credit-adjusted risk-free rate given an estimated settlement date for the obligation. We estimate settlement dates by considering our past practice, industry practice, management's intent and estimated economic lives. AROs included in our consolidated balance sheets were $9 million and $12 million at December 31, 2016 and 2015, respectively.

## ACQUIRED INTANGIBLES AND GOODWILL

Acquired intangibles are recorded at fair value as of the date acquired and consist of customer relationships obtained in connection with the acquisition all of the limited liability company interests of QEP Field Services, LLC, (the "Rockies Natural Gas Business Acquisition"). The value for the identified customer relationships consists of cash flow expected from existing contracts and future arrangements from the existing customer base. We amortize acquired intangibles with finite lives on a straight-line basis over an estimated weighted average useful life of 35 years and we include the amortization in depreciation and amortization expenses on our consolidated statements of operations.

Goodwill represents the amount the purchase price exceeds the fair value of net assets acquired in a business combination. We do not amortize goodwill or indefinite-lived intangible assets. The goodwill recorded for the Rockies Natural Gas Business represents future organic growth opportunities, anticipated synergies and intangible assets that did not qualify for separate recognition. We are required, however, to review goodwill and indefinite-lived intangible assets for impairment annually, or more frequently if events or changes in business circumstances indicate the book value of the assets may not be recoverable. In such circumstances, we record the impairment in loss on asset disposals and impairments in our consolidated statements of operations. We review the recorded value of goodwill for impairment on November 1st of each year, or sooner if events or changes in circumstances indicate the carrying amount may exceed fair value using qualitative and/or quantitative assessments at the reporting level. There were no impairments of goodwill during the years ended December 31, 2016, 2015 and 2014.

## IMPAIRMENT OF LONG-LIVED ASSETS

We review property, plant and equipment and other long-lived assets, including acquired intangibles with finite lives, for impairment whenever events or changes in business circumstances indicate the net book values of the assets may not be recoverable. Impairment is indicated when the undiscounted cash flows estimated to be generated by those assets are less than the assets' net book value. If this occurs, an impairment loss is recognized for the difference between the asset fair value and net book value. Factors that indicate potential impairment include: a significant decrease in the market value of the asset, operating or cash flow losses associated with the use of the asset and a significant change in the asset's physical condition or use.

## INVESTMENTS IN EQUITY METHOD INVESTMENTS

For equity investments that are not required to be consolidated under the variable or voting interest model, we evaluate the level of influence we are able to exercise over an entity's operations to determine whether to use the equity method of accounting. Our judgment regarding the level of control over an equity method investment includes considering key factors such as our ownership interest, participation in policy-making and other significant decisions and material intercompany transactions. Amounts recognized for equity method investments are included in equity method investments in our consolidated balance sheet and adjusted for our shares of the net earnings and losses of the investee and cash distributions, which are included in our consolidated statements of operations and our consolidated statements of cash flows. Amounts recognized for earnings in excess of distributions of our equity method investments are included in the operating section of our consolidated statements of cash flows. We evaluate our equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may be impaired. A loss is recorded in earnings in the current period to write down the carrying value of the investment to fair value if a decline in the value of an equity method investment is determined to be other than temporary.

The principal equity method investments and TLLP's ownership percentage as of December 31, 2016 were Rendezvous Gas Services, L.L.C. ("RGS"), in which we own a 78% ownership interest, Three Rivers Gathering, L.L.C. ("TRG"), in which we own a 50% ownership interest, and Uintah Basin Field Services, L.L.C. ("UBFS"), in which we own a 38% ownership interest. All entities are limited liability companies engaged in gathering and compressing natural gas.

## FINANCIAL INSTRUMENTS

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

- the short term duration of the instruments (less than two percent for both our trade payables and third-party 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 evaluation of our third-party receivables with a short-term duration excludes amounts that are greater than 90 days related to XTO Energy Inc.'s ("XTO") legal dispute with QEP Field Services, LLC ("QEPFS"). See further discussion regarding the XTO litigation in Note 10.

The fair value of our senior notes is based on prices from recent trade activity and is categorized in level 2 of the fair value hierarchy. The carrying value and fair value of our debt were approximately $4.1 billion and $4.3 billion at December 31, 2016, respectively, and were approximately $2.9 billion and $2.8 billion at December 31, 2015, respectively. These carrying and fair values of our debt do not consider the unamortized issuance costs, which are netted against our total debt.

## INCOME TAXES

We are a limited partnership, with the exception of one of our subsidiaries, and are not subject to federal or state income taxes. Our taxable income or loss is included in the federal and state income tax returns of our partners. Taxable income may vary substantially from income or loss reported for financial reporting purposes due to differences in the tax bases and financial reporting bases of assets and liabilities, and due to certain taxable income allocation requirements of the partnership agreement. We are unable to readily determine the net difference in the bases of our assets and liabilities for financial and tax reporting purposes because individual unitholders have different investment bases depending upon the timing and price of acquisition of their partnership units.

Upon the closing of the merger of QEP Midstream Partners, LP ("QEPM"), as discussed further in Note 2, QEP Midstream GP, LLC, the general partner of QEPM and wholly-owned subsidiary of TLLP, made an election to be treated as a corporation for income tax purposes. As a result, we have recognized $1 million of deferred tax expense related to the difference in QEP Midstream GP, LLC's book and tax basis in its investment in QEPM.

Management is required to evaluate uncertain tax positions taken by the Partnership. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Partnership and has concluded that there are no uncertain positions taken or expected to be taken.

## CONTINGENCIES

**ENVIRONMENTAL MATTERS** 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. Our environmental liabilities are estimates using internal and third-party assessments and available information to date. It is possible these estimates will change as additional information becomes available.

We capitalize environmental expenditures that extend the life or increase the capacity of facilities as well as expenditures that prevent environmental contamination. We expense costs that relate to an existing condition caused by past operations and that do not contribute to current or future revenue generation. We record liabilities when environmental assessments and/or remedial efforts are probable and can be reasonably estimated. Cost estimates are based on the expected timing and the extent of remedial actions required by governing agencies, experience gained from similar sites for which environmental assessments or remediation have been completed, and the amount of our anticipated liability considering the proportional liability and financial abilities of other responsible parties. Estimated liabilities are not discounted to present value, and environmental expenses are recorded primarily in operating expenses.

**LEGAL MATTERS** In the ordinary course of business, we become party to lawsuits, administrative proceedings and governmental investigations. These matters may involve large or unspecified damages or penalties that may be sought from us and may require years to resolve. We record a liability related to a loss contingency attributable to such legal matters in other current liabilities or other noncurrent liabilities on our consolidated balance sheets, depending on the classification as current or noncurrent if we determine the loss to be both probable and estimable. The liability is recorded for an amount that is management's best estimate of the loss, or when a best estimate cannot be made, the minimum loss amount of a range of possible outcomes.

## ACQUISITIONS

We use the acquisition method of accounting for the recognition of assets acquired and liabilities assumed with acquisitions at their estimated fair values as of the date of acquisition, with the exception of the Acquisitions from Tesoro. As an entity under common control with Tesoro, we record the assets that we acquire from Tesoro on our consolidated balance sheet at Tesoro's historical basis instead of fair value. Any excess consideration transferred over the estimated fair values of the identifiable net assets acquired from third parties is recorded as goodwill. While we use our best estimates and assumptions to measure the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, not to exceed one year from the date of acquisition, any changes in the estimated fair values of the net assets recorded for the acquisitions will result in an adjustment to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations. Our acquisitions are discussed further in Note 2.

## REVENUE RECOGNITION

The Partnership generates revenue 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 and natural gas liquids. Revenues are recognized as crude oil, natural gas and refined products are transported through, delivered by, or stored in our pipelines, terminals and storage facility assets and transported by our trucking operations. Processing revenues are generated under long-term contracts with fee-based or keep-whole agreements. Under our fee-based agreements, the amount of fee-based revenue we generate is based on the volumes of natural gas that we process at our processing complexes.

The only historic revenues reflected in the financial statements of our Predecessors are amounts received from third-party use of our pipelines and terminals, and amounts received from Tesoro with respect to transportation regulated by the RCA on the refined products pipeline included in the West Coast Logistics Assets Acquisition. Tesoro was not charged fees for services rendered with respect to any terminalling, storage or pipeline transportation services, except as described above, prior to the Acquisitions from Tesoro, as the respective assets were operated as a component of Tesoro's petroleum refining and marketing businesses.

The Partnership has several streams of revenue. Revenues are recognized as products are shipped through our pipelines and terminals. Billings to customers for obligations under their quarterly minimum revenue commitments (shortfall payments) are recorded as deferred revenue when they have the right and physical ability to receive future services for these billings. Some of our fee-based agreements provide for fixed demand charges, which are recognized as revenue pursuant to the contract terms. Revenue associated with shortfall payments is recognized at the earlier of (i) the customer receiving the services provided by these billings, (ii) the expiration of the period in which the customer is contractually allowed to receive the services, (iii) the determination that future services will not be required.

## REIMBURSEMENTS

Pursuant to the Third Amended and Restated Omnibus Agreement ("Amended Omnibus Agreement") and Carson Assets Indemnity Agreement, Tesoro reimburses the Partnership for pressure testing, required repairs and maintenance identified as a result of the first inspection of certain pipeline and tank assets subsequent to the Acquisitions from Tesoro, as well as maintenance projects identified in the Amended Omnibus Agreement for which the costs were not known at the date of the Acquisitions from Tesoro. These amounts are recorded as a reduction to operating expense within the category labeled imbalance settlement gains, net and reimbursements during the period the costs are incurred and were $17 million, $34 million and $26 million for the years ended December 31, 2016, 2015 and 2014, respectively.

In addition, Tesoro reimburses the Partnership for capital projects identified in the Amended Omnibus Agreement. These amounts are recorded as a capital contribution by affiliate and were $29 million, $22 million and $18 million for the years ended December 31, 2016, 2015 and 2014, respectively.

## IMBALANCES

We experience volume gains and losses, which we sometimes refer to as imbalances, within our pipelines, terminals and storage facilities due to pressure and temperature changes, evaporation and variances in meter readings and in other measurement methods. On our crude oil gathering and transportation system in North Dakota and Montana (the "High Plains System"), we retain 0.20% of the crude oil shipped on our owned and operated common carrier pipelines in North Dakota and Montana and we bear any crude oil volume losses in excess of that amount. Under the Second Amended and Restated Master Terminalling Service Agreement with Tesoro, we retain 0.25% of the refined products we handle at certain of our terminals for Tesoro, and bear any refined product volume losses in excess of that amount. The value of any crude oil or refined product imbalance settlements resulting from these tariffs or contractual provisions is determined by using the monthly average market prices for the applicable commodity, less a specified discount. The Partnership measures volume losses annually for the terminals and pipelines in the Northwest Products System. We retain 0.125% of the distillates and 0.25% of the other refined products we handle at our terminals on the Northwest Products System and we bear any refined product volume losses in excess of those amounts. The value of any refined product losses is determined by using the annual average market price for the applicable commodity. Any settlements under tariffs or contractual provisions where we bear any crude oil or refined product volume losses in excess of amounts specified reduce our operating expenses in the period in which they are realized, to the extent they are within the loss allowance, and increase our operating expenses in such period to the extent they exceed the loss allowance. For all of other terminals, and under our other commercial agreements with Tesoro, we have no obligation to measure volume losses and have no liability for physical losses.

The consolidated balance sheets also include offsetting natural gas imbalance receivables or payables resulting from differences in gas volumes received by customers and gas volumes delivered to interstate pipelines. Natural gas volumes owed to or by TLLP that are subject to tariffs are valued at market index prices, as of the balance sheet dates, and are subject to cash settlement procedures. Other natural gas volumes owed to or by TLLP are valued at the our weighted average cost of natural gas as of the balance sheet dates and are settled in-kind.

## UNIT-BASED COMPENSATION

Our general partner provides unit-based compensation to officers and non-employee directors for the Partnership, which includes service and performance phantom unit awards. The fair value of our service phantom unit awards on the date of grant is equal to the market price of our common units. We estimate the grant date fair value of performance phantom unit awards using a Monte Carlo simulation at the inception of the award. We amortize the fair value over the vesting period using the straight-line method. The phantom unit awards are settled in TLLP common units. Expenses related to unit-based compensation are included in general and administrative expenses in our consolidated statements of operations. Total unit-based compensation expense totaled $6 million for both the years ended December 31, 2016 and 2015 and $2 million for the year ended December 31, 2014. During 2016, the long term incentive plan was amended and restated to make available an additional 1,000,000 common units for unit-based awards and to make certain other administrative changes to the plan document. The Partnership had 1,085,464 units available for future grants under the long term incentive plan at December 31, 2016.

## NET EARNINGS PER LIMITED PARTNER 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 December 31, 2016, our participating securities consist of common units, general partner units and incentive distribution rights ("IDRs"). Net earnings attributable to the Partnership is allocated between the limited 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 and subordinated limited partner units outstanding during the period.

Diluted net earnings per unit includes the effects of potentially dilutive units on our common units, which consist of unvested service and performance phantom units. Basic and diluted net earnings per unit applicable to subordinated limited partners was historically the same, as there were no potentially dilutive subordinated units outstanding. Distributions less than or greater than earnings are allocated in accordance with our partnership agreement.

## 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"), and has since amended the standard with ASU 2015-14, "Revenue From Contracts with Customers: Deferral of the Effective Date," ASU 2016-08, "Revenue From Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU 2016-10, "Revenue From Contracts with Customers: Identifying Performance Obligations and Licensing," and ASU 2016-12, "Revenue From Contracts with Customers: Narrow-Scope Improvements and Practical Expedients." These standards replace existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers. We are required to adopt ASU 2014-09 on January 1, 2018.

We have been and continue to evaluate the impact of the standard's revenue recognition model on our contracts with customers in the gathering, processing and terminalling and transportation segments. While we have made substantial progress in our review and documentation of the impact of the standard on our revenue agreements, we continue to assess the impact in certain other areas where industry consensus continues to be formed such as agreements with terms that include non-cash consideration, contributions in aid of construction, and tiered pricing structures. At this time, we are unable to estimate the full impact of the standard until the industry reaches a consensus on certain industry specific issues.

We are currently in the early stages of our implementation plan and are evaluating the impact of the standard on our business processes, accounting systems, controls and financial statement disclosures. We preliminarily expect to transition to the new standard under the modified retrospective transition method, whereby a cumulative effect adjustment is recognized upon adoption and the guidance is applied prospectively.

**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 6, 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 amends existing accounting standards for lease accounting and adds additional disclosures about leasing arrangements. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either a finance lease or operating lease with the classification affecting the pattern of expense recognition in the income statement and presentation of the cash flows in the statement of cash flows. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within those annual reporting periods. Early adoption is permitted and modified retrospective application is required. We are still evaluating the impact of ASU 2016-02 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.

**CREDIT LOSSES.** In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which amends guidance on the impairment of financial instruments. The ASU estimates credit losses based on expected losses, modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, and interim reporting periods within those annual reporting periods. Early adoption is permitted for annual reporting periods beginning after December 15, 2018. While we are still evaluating the impact of ASU 2016-13, we do not expect the adoption of this standard to have a material impact on our financial statements.

**STATEMENT OF CASH FLOWS.** In August 2016, the FASB issued ASU 2016-15, "Clarification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The amendments in this update should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. We early adopted this standard retrospectively as of December 31, 2016, which had an immaterial impact on our financial statements.

**DEFINITION OF A BUSINESS.** In January 2017, the FASB issued ASU 2017-01, "Clarifying the Definition of a Business" ("ASU 2017-01"), which revises the definition of a business and assists in the evaluation of when a set of transferred assets and activities is a business. ASU 2017-01 is effective for interim and annual reporting periods beginning after December 15, 2017, and should be applied prospectively on or after the effective date. Early adoption is permitted under certain circumstances. At this time, we are evaluating the potential impact of this standard on our financial statements.

## NOTE 2 – ACQUISITIONS

### ACQUISITIONS FROM TESORO

**NORTHERN CALIFORNIA TERMINALLING AND STORAGE ASSETS.** Effective November 21, 2016, the Partnership acquired certain terminalling and storage assets located in Martinez, California from subsidiaries of Tesoro for a total consideration of $400 million, comprised of $360 million in cash financed with borrowings under our secured dropdown credit facility (the "Dropdown Credit Facility"), and the issuance of equity securities of the Partnership with a fair value of approximately $40 million. The Northern California Terminalling and Storage Assets include crude oil, feedstock, and refined product storage capacity at Tesoro's Martinez Refinery along with the Avon marine terminal capable of handling feedstock and refined product throughput. The equity consideration was comprised of 860,933 units in the form of common units and 17,570 units in the form of general partner units.

**ALASKA STORAGE AND TERMINALLING ASSETS.** 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 and was completed in two phases. On July 1, 2016, the Partnership completed the acquisition of the first phase consisting of tankage, related equipment and ancillary facilities used for the operations at Tesoro's Kenai Refinery. The second phase was completed on September 16, 2016 and consisted of refined product terminals in Anchorage and Fairbanks. Consideration paid for the first phase was $266 million, comprised of approximately $240 million in cash, financed with borrowings under the Dropdown Credit Facility, and the issuance of 162,375 general partner units and 390,282 common units to Tesoro with a combined fair value of $26 million. Consideration paid for the second phase was $178 million, comprised of approximately $160 million in cash, financed with borrowings under the Dropdown Credit Facility, and the issuance of 20,440 general partner units and 358,712 common units to Tesoro with a combined fair value of $18 million.

**LA STORAGE AND HANDLING ASSETS.** On November 12, 2015, the Partnership purchased crude oil and refined product storage and pipeline assets in Los Angeles, California owned by subsidiaries of Tesoro Corporation, for a total consideration of $500 million. The Partnership acquired crude oil, feedstock, and refined product storage tank facility and a 50% fee interest in a 16-mile pipeline that transports jet fuel from Tesoro's Los Angeles refinery to the Los Angeles International Airport. The acquisition price of $500 million included cash of approximately $250 million, funded in part from the unsecured term loan facility (the "Unsecured Term Loan Facility"), and the issuance of common and general partner units to Tesoro, valued at approximately $250 million.

**WEST COAST LOGISTICS ASSETS.** On June 23, 2014, we entered into an agreement with Tesoro to acquire certain terminalling and pipeline assets owned by Tesoro and two of its subsidiaries, Tesoro Refining & Marketing Company LLC and Tesoro Alaska Company LLC for total consideration of $270 million and was completed in two stages. The operations of the West Coast Logistics Assets are included in our Terminalling and Transportation segment. On July 1, 2014, the Partnership completed the acquisition of the first phase of the West Coast Logistics Assets in exchange for consideration of $241 million, comprised of approximately $214 million in cash, financed with borrowings on our secured revolving credit facility (the "Revolving Credit Facility"), the issuance of equity to Tesoro with a fair value of $27 million. The equity was comprised of 370,843 common units and 8,856 general partner units. The second phase was completed on September 30, 2014, upon receiving the required regulatory approval from the RCA, for cash consideration of $29 million, which was financed with borrowings on our Revolving Credit Facility. The assets consist of all of Tesoro's membership interests in Tesoro Alaska Pipeline Company LLC, a wholly-owned subsidiary of Tesoro, which owns a refined products pipeline connecting Tesoro's Kenai refinery to our terminals in Anchorage, Alaska.

In connection with all of the acquisitions above, Tesoro and TLLP entered into long-term, fee-based storage and throughput and use agreements. See Note 3 for additional information regarding commercial agreements and amendments to other agreements with related parties in connection with the acquisitions.

### OTHER ACQUISITIONS

**NORTH DAKOTA GATHERING AND PROCESSING ASSETS.** On November 21, 2016, the Partnership agreed to acquire crude oil, natural gas and produced water gathering systems and two natural gas processing facilities from Whiting Oil and Gas Corporation, GBK Investments, LLC and WBI Energy Midstream, LLC for total consideration of approximately $700 million funded with cash on-hand, which included the borrowings under our Revolving Credit Facility. The North Dakota Gathering and Processing Assets include crude oil, natural gas, and produced water gathering pipelines, natural gas processing and fractionation capacity in the Sanish and Pronghorn fields of the Williston Basin in North Dakota. The acquisition, which was subject to customary closing conditions including regulatory approval, closed January 1, 2017. Given the acquisition date, it was impracticable to provide an initial estimate of the fair value of identifiable assets acquired, residual goodwill or pro forma information. We expect to provide disclosures of the preliminary fair value of identified assets acquired and pro forma information, if material, in our interim condensed consolidated financial statements for the period ending March 31, 2017.

**ROCKIES NATURAL GAS BUSINESS.** On December 2, 2014, the Partnership acquired all of the limited liability company interests of QEPFS for an aggregate purchase price of approximately $2.5 billion, which includes environmental obligations, existing legal obligations and $230 million QEPM debt. QEPFS is the direct or indirect owner of assets related to, and entities engaged in, natural gas gathering, transportation and processing in or around the Green River Basin located in Wyoming and Colorado, the Uinta Basin located in eastern Utah, and the portion of the Williston Basin located in North Dakota. During 2015, TLLP recorded measurement period adjustments, which reduced goodwill by $34 million, after obtaining additional information regarding, among other things, asset valuations and liabilities assumed.

On July 22, 2015, TLLP and QEPM completed the transaction in which TLLP Merger Sub LLC merged with and into QEPM, with QEPM surviving the merger as a wholly-owned subsidiary of TLLP (the "QEPM Merger"). TLLP issued additional TLLP Common Units to QEPM unitholders as a result of the QEPM Merger. There was no impact to the purchase price allocation as a result of the QEPM Merger.

During the years ended December 31, 2015 and 2014, we incurred transaction costs of $2 million and $33 million, respectively, related to the Rockies Natural Gas Business Acquisition directly attributable to the transaction. These costs are included in general and administrative expenses and interest and financing costs, net in our consolidated statements of operations.

The unaudited pro forma condensed consolidated results of operations for the year ended December 31, 2014, are provided as if the Rockies Natural Gas Business Acquisition had been completed on January 1, 2014. The unaudited pro forma financial information reflects adjustments to exclude $8 million of nonrecurring accelerated amortization of certain QEPFS deferred issuance costs and the $33 million of transaction costs as a result of the Rockies Natural Gas Business Acquisition for the year ended December 31, 2014. Pro forma revenues, net earnings and net earnings attributable to partners were $936 million, $101 million and $106 million, respectively, for the year ended December 31, 2014. Pro forma basic and diluted net earnings per limited partner unit were both $0.77 per common unit and were both $1.13 per subordinated unit for the year ended December 31, 2014.

## NOTE 3 – RELATED-PARTY TRANSACTIONS

### COMMERCIAL AGREEMENTS

The Partnership has various long-term, fee-based commercial agreements with Tesoro, under which we provide pipeline transportation, trucking, terminal distribution and storage services to Tesoro, and Tesoro commits to provide us with minimum monthly throughput volumes of crude oil and refined products. If, in any calendar month, Tesoro fails to meet its minimum volume commitments under these agreements, it will be required to pay us a shortfall payment. These shortfall payments may be applied as a credit against any amounts due above their minimum volume commitments for up to three months after the shortfall occurs. Each of these agreements has fees that are indexed annually for inflation or, in certain circumstances, allows for a quarterly rate adjustment based on a comparison of competitive rates.

## COMMERCIAL AGREEMENTS WITH TESORO

| Commercial Agreement | Initiation Date | Term | Renewals | Termination Provisions: Refinery Shutdown Notice Period (a) | Termination Provisions: Force Majeure |
|---|---|---|---|---|---|
| Transportation Agreement (High Plains System) | April 2011 | 10 | 2 x 5 years | 12 months | TLLP can declare (unilateral) |
| Second Amended and Restated Master Terminalling Agreement | April 2011 | 10 | 2 x 5 years | | |
| Stockton Minimum Throughput Commitment (MTA supplement) | April 2011 | 10 | 2 x 5 years | | |
| Salt Lake City Storage Agreement | April 2011 | 10 | 2 x 5 years | | |
| Amended and Restated Transportation Services Agreement | April 2011 | 10 | 2 x 5 years | | |
| Amorco Terminal Use and Throughput Agreement (Martinez Marine) | April 2012 | 10 | 2 x 5 years | | |
| Amended Anacortes Track Use and Throughput Agreement | November 2012 | 10 | 2 x 5 years | N/A | |
| Terminalling Services Agreement for Northwest Products System | June 2013 | 1 | Year to year | | |
| Southern California Terminalling Services Agreement | June 2013 | 10 | 2 x 5 years | | |
| Carson Storage Services Agreement Amended | June 2013 | 10 | 2 x 5 years | | |
| Southern California Dedicated Storage Agreement | June 2013 | 10 | 2 x 5 years | | |
| Long Beach Storage Services Agreement | December 2013 | 10 | 2 x 5 years | | |
| Carson Coke Handling Service Agreement | December 2013 | 10 | 2 x 5 years | | |
| Long Beach Throughput Agreement (b) | December 2013 | 10 | 2 x 5 years | | |
| Transportation Services Agreement (SoCal Pipelines) | December 2013 | 10 | 2 x 5 years | | |
| Amended and Restated Long Beach Berth Access Use and Throughput Agreement | December 2013 | 10 | 2 x 5 years | | |
| BASH Storage - TRMC Tanks | April 2014 | 5 | 2 x 5 years | | |
| Terminalling Services Agreement - Martinez | July 2014 | 10 | 2 x 5 years | | |
| Terminalling Services Agreement - Nikiski | July 2014 | 10 | 2 x 5 years | | |
| Storage Services Agreement - Anacortes | July 2014 | 10 | 2 x 5 years | | |
| Martinez Dedicated LPG Storage Agreement | July 2014 | 10 | 2 x 5 years | | |
| THPP Reversal Open Season Northbound Commitment | September 2014 | 7 | None | | |
| Tesoro Alaska Pipeline Throughput Agreement | September 2014 | 10 | 2 x 5 years | | |
| Transportation Services Agreement (LAR Short Haul Pipelines) | September 2014 | 10 | 2 x 5 years | | |
| Keep-Whole Commodity Fee Agreement | December 2014 | 5 | 1 year auto | 90 days prior to expiration | Bilateral |
| Terminalling Services Agreement - Anacortes Rack | November 2015 | 10 | 2 x 5 years | N/A | TLLP can declare (unilateral) |
| Carson Tank Farm Storage Agreement | November 2015 | 10 | 2 x 5 years | | |
| Kenai Storage Services Agreement | July 2016 | 10 | 2 x 5 years | | |
| Alaska Terminalling Services Agreement | September 2016 | 10 | 2 x 5 years | | |
| Avon Marine Terminal Operating Agreement | November 2016 | Effective date of sublease | None | | |
| Martinez Storage Services Agreement | November 2016 | 10 | 2 x 5 years | | |
| Asphalt and Propane Rack Loading Services Agreement | December 2016 | 10 | 2 x 5 years | | |

(a) Fixed minimum volumes remain in effect during routine turnarounds.
(b) Agreement gives Tesoro the option to renew for two five-year terms, or Tesoro may modify the term of the agreements to a twenty-year term by providing notice in accordance with each agreement.

We charge fixed fees based on the total storage capacity of our tanks under several of our agreements with Tesoro. We recognized approximately $193 million, $105 million and $83 million of revenue under these agreements where TLLP was considered to be the lessor during the years ended December 31, 2016, 2015 and 2014, respectively. Committed minimum payments for each of the five years following December 31, 2016, are expected to be approximately $260 million to $268 million per year and an aggregate $890 million remaining after 2021.

## THIRD AMENDED AND RESTATED OMNIBUS AGREEMENT

The Partnership entered into an omnibus agreement with Tesoro at the closing of the TLLP initial public offering ("Initial Offering"). The agreement has been amended for each of the Acquisitions from Tesoro and was most recently amended on November 21, 2016, in connection with the acquisition of the Martinez Logistics Assets. The amendment increased the annual administrative fee payable by the Partnership to Tesoro under the Amended Omnibus Agreement to approximately $11 million as of December 31, 2016, for the provision of various general and administrative services, including executive management, legal, accounting, treasury, human resources, health, safety and environmental, information technology, certain insurance coverage, administration and other corporate services. In addition, the Partnership reimburses Tesoro for all other direct or allocated costs and expenses incurred by Tesoro or its affiliates on its behalf.

Under the Amended Omnibus Agreement, Tesoro indemnifies us for certain matters, including known environmental, title and tax matters associated with the ownership of our assets at or before the closing of the Initial Offering and the subsequent acquisitions from Tesoro, with certain exceptions that are covered by the Carson Assets Indemnity Agreement. With respect to assets that we acquired from Tesoro, indemnification for unknown environmental and title liabilities is limited to pre-closing conditions identified prior to the earlier of the date that Tesoro no longer controls our general partner or five years after the date of closing. The indemnification under the Initial Offering for unknown environmental matters expired on April 26, 2016. Under the Amended Omnibus Agreement, the aggregate annual deductible for each type of liability (unknown environmental liabilities or title matters) is approximately $1 million as of December 31, 2016, before we are entitled to indemnification in any calendar year in consideration of Initial Offering assets and all subsequent Acquisitions from Tesoro, with the exception of the indemnifications for the acquisition of the six marketing and storage terminal facilities (the "Los Angeles Terminal Assets") and the acquisition of the remaining logistics assets (the "Los Angeles Logistics Assets") initially acquired by us as part of the Los Angeles acquisition in Southern California (the "Los Angeles Logistics Assets Acquisition"). In addition, with respect to the assets that we acquired from Tesoro, we have agreed to indemnify Tesoro for events and conditions associated with the ownership or operation of our assets that occur after the closing of the Initial Offering, and the subsequent Acquisitions from Tesoro, and for environmental liabilities related to our assets to the extent Tesoro is not required to indemnify us for such liabilities. See Note 10 for additional information regarding the Amended Omnibus Agreement.

## CARSON ASSETS INDEMNITY AGREEMENT

The Partnership entered into the Carson Assets Indemnity Agreement with Tesoro at the closing of the Los Angeles Logistics Assets Acquisition effective December 6, 2013, establishing indemnification for certain matters including known and unknown environmental liabilities arising out of the use or operation of the Los Angeles Terminal Assets and the Los Angeles Logistics Assets prior to the respective acquisition dates.

Under the Carson Assets Indemnity Agreement, Tesoro retained responsibility for remediation of known environmental liabilities due to the use or operation of the Los Angeles Terminal Assets and the Los Angeles Logistics Assets prior to the respective acquisition dates, and has indemnified the Partnership for any losses incurred by the Partnership arising out of those remediation obligations. The indemnification for unknown pre-closing remediation liabilities is limited to five years. However, with respect to Terminal 2 at the Long Beach marine terminal, which was included in the Los Angeles Logistics Assets Acquisition, the indemnification for unknown pre-closing remediation liabilities is limited to ten years. Indemnification of the Los Angeles Terminal Assets' and the Los Angeles Logistics Assets' environmental liabilities is not subject to a deductible. See Note 10 for additional information regarding the Carson Assets Indemnity Agreement.

## KEEP-WHOLE COMMODITY FEE AGREEMENT

Effective December 2, 2014, following the completion of the Rockies Natural Gas Business Acquisition, we began processing 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 the processor, in exchange, delivers to the producer natural gas with a BTU content equivalent to the NGLs removed. The operating margin for these contracts is typically determined by the spread between NGLs sales prices and the price paid to purchase the replacement natural gas ("Shrink Gas"). At that time, TLLP entered into a five-year agreement with Tesoro, which transfers the commodity risk exposure associated with these keep-whole processing agreements from TLLP to Tesoro (the "Keep-Whole Commodity Agreement"). Under the Keep-Whole Commodity Agreement with Tesoro, Tesoro pays TLLP a processing fee for NGLs related to keep-whole agreements and delivers Shrink Gas to the producers on behalf of TLLP. TLLP pays Tesoro a marketing fee in exchange for assuming the commodity risk.

On February 1, 2016, the parties entered into the First Amendment to the Keep-Whole Commodity Agreement (the "Keep-Whole Amendment") that adjusted the contract to provide for a tiered pricing structure for different NGL production levels. The

Keep-Whole Amendment continues to provide for annual purchase orders setting forth service fees for the base and incremental volumes; however, the Keep-Whole Amendment provides that the service fees payable for incremental volumes of natural gas liquids above 315,000 gallons per day shall be calculated with reference to the costs of (i) processing, (ii) conditioning, (iii) handling, (iv) fractionation, (v) storage, truck and rail loading at the Blacks Fork Processing Complex, and (vi) pipeline transportation fees on the MAPL Pipeline System and fractionation fees at Mt. Belvieu, Texas for transportation and fractionation services provided to Processors by MAPL, Cedar Bayou Fractionators, and Enterprise Products Partners L.P. for natural gas liquids sold pursuant to the Keep-Whole Commodity Agreement. The pricing for both the base and incremental volumes are subject to revision each year.

## SECONDMENT AND LOGISTICS SERVICES AGREEMENT

We entered into the Secondment and Logistics Services Agreement (the "Secondment Agreement") with Tesoro to govern the provision of seconded employees to or from Tesoro, the Partnership, and its subsidiaries, as applicable. The Secondment Agreement, as amended as recently as November 2016, also governs the use of certain facilities of the parties by the various entities. The services to be provided by such seconded employees, along with the fees for such services, will be provided on the service schedules attached to the Secondment Agreement. Specialized services and the use of various facilities, along with the fees for such services, will be provided for in service orders to be executed by parties requesting and receiving the service. All fees to be paid pursuant to the Secondment Agreement are indexed for inflation. For the years ended December 31, 2016 and 2015, the Partnership charged Tesoro $5 million and $3 million, respectively, and Tesoro charged the Partnership $18 million and $8 million, respectively, pursuant to the agreement.

On December 2, 2014, the General Partner and certain of its indirect subsidiaries entered into Amendment No. 1 to the Secondment Agreement (the "Secondment Agreement Amendment") with Tesoro, pursuant to which these entities joined as parties to the Secondment Agreement dated July 1, 2014, to provide for the secondment of employees to or from those entities and Tesoro.

On March 31, 2016 and November 21, 2016, the General Partner and certain of its indirect subsidiaries entered in Amendments No. 2 and No. 3, respectively to the Secondment Agreement with Tesoro. Under Amendment No.2, additional parties were added to the agreement. Under Amendment No. 3 the parties agree that either party may provide labor, materials, equipment and supplies to either Tesoro or TLLP, that such work may be provided by third parties under contract with one of the parties to the amendment and that the costs and expenses will be allocated to the parties that receive the benefits of such work.

## SUMMARY OF AFFILIATE TRANSACTIONS

### SUMMARY OF REVENUE AND EXPENSE TRANSACTIONS WITH TESORO, INCLUDING PREDECESSORS (in millions)

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Revenues | **$ 715** | $ 615 | $ 497 |
| Operating expenses | **166** | 135 | 111 |
| Imbalance settlement gains, net and reimbursements from Tesoro (a) | **24** | 42 | 43 |
| General and administrative expenses | **69** | 72 | 39 |

(a) Includes net imbalance settlement gains of $7 million, $8 million and $17 million in the years ended December 31, 2016, 2015 and 2014, respectively. Also includes reimbursements primarily related to pressure testing and repairs and maintenance costs pursuant to the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement of $17 million, $34 million and $26 million in the years ended December 31, 2016, 2015 and 2014, respectively.

**PREDECESSOR TRANSACTIONS.** Related-party transactions of our Predecessors were settled through equity. The balance in receivables and accounts payable from affiliated companies represents the amount owed from or to Tesoro related to certain affiliate transactions. Our Predecessors did not record revenue for transactions with Tesoro in the Terminalling and Transportation segment, with the exception of regulatory tariffs charged to Tesoro on the refined products pipeline included in the West Coast Logistics Assets Acquisition.

**DISTRIBUTIONS.** In accordance with our partnership agreement, our limited and general partner interests are entitled to receive quarterly distributions of available cash. We paid quarterly cash distributions to Tesoro, including IDRs, totaling $245 million, $148 million and $87 million in 2016, 2015 and 2014, respectively. On January 18, 2017, in accordance with our partnership

agreement, we announced the declaration of a quarterly cash distribution, based on the results of the fourth quarter of 2016, of $0.91 per unit, of which $77 million was paid to Tesoro on February 14, 2017 based on unitholders of record on February 3, 2017.

## NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

**PROPERTY, PLANT AND EQUIPMENT BY SEGMENT (in millions)**

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Gathering (a) | **$ 1,406** | $ 1,700 |
| Processing | **577** | 565 |
| Terminalling and Transportation (b) | **2,076** | 1,897 |
| Property, Plant and Equipment, at Cost | **4,059** | 4,162 |
| Accumulated depreciation (a) (b) | **(615)** | (481) |
| Property, Plant and Equipment, Net | **$ 3,444** | $ 3,681 |

(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 6 for further discussion of the deconsolidation of RGS.

(b) Assets owned by us for which we are the lessor under operating leases were $385 million and $252 million before accumulated depreciation of $111 million and $41 million as of December 31, 2016 and 2015, respectively.

## NOTE 5 – ACQUIRED INTANGIBLES AND GOODWILL

### ACQUIRED INTANGIBLES

The acquired intangible assets, net of accumulated amortization, was $947 million at December 31, 2016 consisting of customer relationships associated with the natural gas processing and gathering operations from the Rockies Natural Gas Business Acquisition. The value for the identified customer relationships consists of cash flows expected from existing contracts and future arrangements from the existing customer base. Accumulated amortization was $61 million and $32 million at December 31, 2016 and 2015, respectively. Amortization expense of acquired intangible assets was $29 million for both years ended December 31, 2016 and 2015. As of December 31, 2016, amortization expense is expected to be approximately $29 million per year through 2021.

### GOODWILL

We had goodwill of $117 million and $130 million at December 31, 2016 and 2015, respectively. The deconsolidation of RGS, as further discussed in Note 6, reduced the Partnership's consolidated goodwill by approximately $13 million.

For 2016, we elected to perform our annual goodwill impairment using a two-step quantitative assessment process on our goodwill of $117 million. As part of our two-step quantitative goodwill impairment process, we engaged a third party appraisal firm to assist in the determination of estimated fair value. This determination includes estimating the fair value using both the income and market approaches. The income approach requires management to estimate a number of factors, including projected future operating results, economic projections, anticipated future cash flows and discount rates. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping. The determination of the fair value requires us to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to, the selection of appropriate peer group companies, control premiums appropriate for acquisitions in the industries in which we compete, the discount rates, terminal growth rates, and forecasts of revenue, operating income, depreciation and amortization and capital expenditures.

We determined that no impairment charges resulted from our November 1, 2016 goodwill impairment assessments. Furthermore, the fair value tested in step one of the goodwill impairment test exceeded the carrying value such that we were not required to perform step two. There were no impairments of goodwill during the years ended December 31, 2016, 2015 and 2014.

## NOTE 6 – 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 the consent of the other investor(s) without regard to 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 represented 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.
- **TRG.** We own a 50% interest in TRG located in the southeastern Uinta Basin. TRG was formed with Ute Energy to transport natural gas gathered by UBFS and other third-party volumes to gas processing facilities. The Three Rivers Gathering system is primarily supported by long-term, fee-based gas gathering agreements with minimum volume commitments.
- **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, 2014 | $ — | $ 40 | $ 18 | $ 58 |
| Investments | — | 3 (c) | — (c) | 3 |
| Equity in earnings | — | 5 | 2 | 7 |
| Distributions received | — | (6) | (4) | (10) |
| Balance at December 31, 2015 (a) | — | 42 | 16 | 58 |
| Effect of deconsolidation (b) | 295 | — | — | 295 |
| Equity in earnings | 8 | 2 | 3 | 13 |
| Distributions received | (22) | (4) | (3) | (29) |
| **Balance at December 31, 2016 (a)** | **$ 281** | **$ 40** | **$ 16** | **$ 337** |

(a) The carrying amount of our investments in RGS, TRG and UBFS exceeded the underlying equity in net assets by $135 million, $16 million and $7 million, respectively, at December 31, 2016. The carrying amount of our investments in TRG and UBFS exceeded the underlying equity in net assets by $17 million and $8 million, respectively, at December 31, 2015. The carrying amounts of our investments that exceed the underlying equity in net assets are amortized over the useful life of the underlying fixed assets and included in equity in earnings (loss).

(b) We recognized an increase of $295 million to equity method investments as of January 1, 2016 as a result of the deconsolidation of RGS. The carrying amount of our investment in RGS exceeded the underlying equity in net assets by $135 million at December 31, 2016

(c) Includes the final fair value adjustment resulting from measurement period changes related to TLLP's Rockies Natural Gas Business in 2015.

## NOTE 7 – OTHER CURRENT LIABILITIES

**OTHER CURRENT LIABILITIES (in millions)**

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Legal | $ — | $ 21 |
| Accrued environmental liabilities | 17 | 21 |
| Asset retirement obligation | 6 | 1 |
| Other | 22 | 18 |
| Total Other Current Liabilities | $ 45 | $ 61 |

## NOTE 8 – DEBT

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

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Revolving Credit Facility | $ 330 | $ 305 |
| Dropdown Credit Facility | — | — |
| Term Loan Facility | — | 250 |
| 5.500% Senior Notes due 2019 | 500 | 500 |
| 5.875% Senior Notes due 2020 (a) | 470 | 470 |
| 6.125% Senior Notes due 2021 (a) | 800 | 550 |
| 6.250% Senior Notes due 2022 | 800 | 800 |
| 6.375% Senior Notes due 2024 | 450 | — |
| 5.250% Senior Notes due 2025 | 750 | — |
| Capital lease obligations | 9 | 8 |
| Total Debt | 4,109 | 2,883 |
| Unamortized issuance costs (a) | (55) | (39) |
| Current maturities, net of unamortized issuance costs | (1) | — |
| Debt, Net of Current Maturities and Unamortized Issuance Costs | $ 4,053 | $ 2,844 |

(a) Unamortized premiums of $4 million associated with these senior notes are included in unamortized issuance costs at both December 31, 2016 and 2015.

The aggregate maturities of our debt, including the principal payments of our capital lease obligations, for each of the five years following December 31, 2016 are approximately $1 million in 2017 and 2018, $501 million in 2019, $471 million in 2020 and $1.1 billion in 2021.

### REVOLVING CREDIT FACILITY AND DROPDOWN CREDIT FACILITY

On January 29, 2016, we amended our existing secured Revolving Credit Facility to revise key terms related to pricing and financial covenants and lowered the aggregate available facility limit from $900 million to $600 million. As a result of this amendment, an immaterial amount of unamortized debt issuance costs were expensed. Additionally on January 29, 2016, we syndicated the $1.0 billion Dropdown Credit Facility. 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 Revolving Credit Facility and Dropdown Credit Facility totaled $1.6 billion at December 31, 2016. We are allowed to request the loan availability for both the Revolving Credit Facility and the Dropdown Credit Facility be increased up to an aggregate of $2.1 billion, subject to receiving increased commitments from lenders.

Our secured Revolving Credit Facility provided for total loan capacity of $600 million as of December 31, 2016. 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 with the exception of certain non-wholly owned subsidiaries acquired in the Rockies Natural Gas Business acquisition and secured by substantially all of our assets. As of December 31, 2016, there was $330 million in borrowings outstanding under the secured Revolving Credit Facility, which had unused credit availability of $270 million, or 45% the borrowing capacity. The weighted average interest rate for borrowings under our Revolving Credit Facility was 2.76% at December 31, 2016.

As of December 31, 2016, the Dropdown Credit Facility provided for total loan availability of $1.0 billion. We had no borrowings outstanding under the Dropdown Credit Facility, resulting in the full loan availability of the borrowing capacity as of December 31, 2016.

The Revolving Credit Facility and the 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 from either Moody's Investors Service or S&P Global Ratings, certain covenants and restrictions under each facility will automatically be eliminated or improved.

**COVENANTS.** The Revolving Credit Facility, the Dropdown Credit Facility and senior notes contain certain covenants that may, among other things, limit or restrict our ability (as well as those of our subsidiaries) to:

- incur additional indebtedness and incur liens on assets to secure certain debt;
- pay and make certain restricted payments;
- make distributions from its subsidiaries;
- dispose of assets in excess of an annual threshold amount;
- in the case of our Revolving Credit Facility, make certain amendments, modifications or supplements to organization documents and material contracts;
- in the case of the our Revolving Credit Facility, engage in certain business activities;
- engage in certain mergers or consolidations and transfers of assets; and
- enter into non-arm's-length transactions with affiliates.

## SENIOR NOTES EXCHANGE

On February 26, 2016, the Partnership commenced an offer to exchange (the "Exchange") its existing unregistered 5.500% Senior Notes due 2019 ("2019 Notes") and 6.250% Senior Notes due 2022 ("2022 Notes") (together, "Unregistered Notes") for an equal principal amount of senior notes due 2019 at 5.500% and senior notes due 2022 (the "Exchange Notes") at 6.250%, respectively, that were registered under the Securities Act of 1933, as amended. The aforementioned rates of the Exchange Notes approximate the effective interest rate. 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.

## SENIOR NOTES

**5.500% SENIOR NOTES DUE 2019.** In October 2014, we completed a private offering of $1.3 billion aggregate principal amount of senior notes pursuant to a private placement transaction conducted under Rule 144A and Regulation S of the Securities Act of 1933, as amended. The $1.3 billion of aggregate principal senior notes, completed in a private offering (the "Senior Notes Offering") consisted of $500 million of the 2019 Notes at 5.500%, which approximates the effective interest rate, and $800 million of 6.250% the 2022 Notes. The proceeds from the 2019 Notes were used to repay amounts outstanding under our Revolving Credit Facility related to the West Coast Logistics Assets Acquisition. The remaining net proceeds from the 2019 Notes were used to fund the Rockies Natural Gas Business Acquisition.

The 2019 Notes have no sinking fund requirements. We may redeem some or all of the 2019 Notes prior to September 15, 2019, at a make-whole price, and at par thereafter, plus accrued and unpaid interest. The 2019 Notes are unsecured and guaranteed by all of our consolidated subsidiaries, with the exception of 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.

We agreed to complete a registered exchange offer to exchange the 2019 Notes for debt securities with substantially identical terms within 18 months of the closing date of the Senior Notes Offering. On April 14, 2016, we completed the Exchange of all of the 2019 Notes.

**5.875% SENIOR NOTES DUE 2020.** At December 31, 2016, we had $470 million of outstanding senior notes due in 2020 (the "2020 Notes") at 5.875%, which approximates the effective interest rate, excluding unamortized premiums of $4 million. The 2020 Notes were issued in two offerings, the initial offering of $350 million of unregistered notes effective September 14, 2012 and the secondary offering of $250 million of unregistered notes effective December 17, 2013, which was issued at 102.25% of face value (together the "Unregistered Notes"). In July 2014, we completed an offer to exchange these Unregistered Notes for notes registered under the Securities Act of 1933, as amended (the "Exchange Notes"). In accordance with the terms of the Exchange Notes, each holder of the Unregistered Notes was entitled to receive the Exchange Notes, which are identical in all material respects to the Unregistered Notes (including principal amount, interest rate, maturity and redemption rights), except that the Exchange Notes generally are not subject to transfer restrictions. The exchange offer fulfills all of the requirements of the Registration Rights Agreement for the unregistered note.

The 2020 Notes have no sinking fund requirements. We may redeem some or all of the 2020 Notes at premiums equal to 2.938% through October 1, 2017; 1.469% from October 1, 2017 through October 1, 2018; and at par thereafter, plus accrued and unpaid interest. The 2020 Notes are unsecured and guaranteed by all of our subsidiaries, except Tesoro Logistics Finance Corp., the co-issuer, and any subsidiaries acquired with the Rockies Natural Gas Business Acquisition, 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.

In August 2014, we completed a public offering of 2.1 million common units representing limited partner interests, at a price of $67.47 per unit. We used the net proceeds for the redemption of $130 million of the 2020 Notes, and to pay accrued interest and premiums of $4 million and $7 million, respectively. TLGP reimbursed the payment of premiums, which was reflected as a contribution by TLGP as it relates to its ownership of our common units. The $7 million of premiums and $3 million of expenses of unamortized debt issuance costs were included in interest and financing costs, net.

**6.125% SENIOR NOTES DUE 2021.** In August 2013, we completed a private offering which were exchanged for registered notes of $550 million aggregate principal amount of senior notes due in 2021 ("the 2021 Notes") at 6.125%, which approximates the effective interest rate. The proceeds of this offering were used to repay the amounts outstanding under our Revolving Credit Facility, which were used to fund a significant portion of the Los Angeles Terminal Assets Acquisition, and to pay a portion of the fees and expenses related to the offering of the 2021 Notes.

The 2021 Notes have no sinking fund requirements and we may redeem some or all of the notes 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. The 2021 Notes are unsecured and guaranteed by all of our subsidiaries, except Tesoro Logistics Finance Corp., the co-issuer and any subsidiaries acquired with the Rockies Natural Gas Business Acquisition, 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.

In May 2016, we completed a registered offering of $250 million aggregate principal amount of senior notes due 2021 ("Supplemental 2021 Notes") at 6.125%, which approximates the effective interest rate. We used the proceeds of the offering to repay amounts outstanding under the Dropdown Credit Facility.

The Supplemental 2021 Notes were issued under the same indenture governing the existing $550 million of the 2021 Notes and have the same terms. The Supplemental 2021 Notes have no sinking fund requirements and 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. The Supplemental 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.

**6.250% SENIOR NOTES DUE 2022.** In October 2014, we issued $800 million aggregate principal amount of senior notes due in 2022 (the "2022 Notes") at 6.250%, which approximates the effective interest rate. The proceeds from the 2022 Notes were used to fund a portion of the Rockies Natural Gas Business acquisition.

The 2022 Notes have no sinking fund requirements. We may redeem some or all of the 2022 Notes prior to October 15, 2018, at a make-whole price, plus any accrued and unpaid interest. On or after October 15, 2018, the 2022 Notes may be redeemed

at premiums equal to 3.125% through October 15, 2019; 1.563% from October 15, 2019 through October 15, 2020; 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 106.25% of face value with proceeds from certain equity issuances through October 15, 2017. The 2022 Notes are unsecured and guaranteed by all of our consolidated subsidiaries, with the exception 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.

We agreed to complete a registered exchange offer to exchange the 2022 Notes for debt securities with substantially identical terms within 18 months of the closing date of the Senior Notes Offering. On April 14, 2016, we completed the Exchange of substantially all of the 2022 Notes.

**6.375% SENIOR NOTES DUE 2024.** In May 2016, we completed a registered offering of $450 million aggregate principal amount of senior notes due in 2024 (the "2024 Notes") at 6.375%, which approximates the effective interest rate. We used the proceeds of the offering to repay amounts outstanding under the Revolving Credit Facility and for general partnership purposes.

The 2024 Notes have no sinking fund requirements and 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% 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.

**5.250% SENIOR NOTES DUE 2025.** On December 2, 2016, we completed a registered offering of $750 million aggregate principal amount of the senior notes due in 2025 ("the 2025 Notes") at 5.250%, which approximates the effective interest rate. The proceeds from this offering were used to repay amounts outstanding under the Dropdown Credit Facility.

The 2025 Notes have no sinking fund requirements. We may redeem some or all of the 2025 Notes prior to January 15, 2021, at a make-whole price, plus any accrued and unpaid interest. On or after January 15, 2021, the 2025 Notes may be redeemed at premiums equal to 2.625% through January 15, 2022; 1.313% through January 15, 2023; 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 105.250% of face value with proceeds from certain equity issuances through January 15, 2020. The 2025 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.

## TERM LOAN

**UNSECURED TERM LOAN FACILITY.** In November 12, 2015, we entered into a $250 million the Unsecured Term Loan Facility to fund a portion of the LA Storage and Handling Assets from Tesoro. On February 3, 2016, we repaid the full amount of the Unsecured Term Loan Facility, including accrued interest, with proceeds drawn from the Dropdown Credit Facility. All commitments under the Unsecured Term Loan Facility were terminated effective with the repayment.

## CAPITAL LEASE OBLIGATIONS

Our capital lease obligations relate to two leases of facilities used for trucking operations in North Dakota with initial terms of 15 years, with five-year renewal options and a right of way with an initial term of 31 years. The total cost of assets under capital leases was $11 million and $9 million for December 31, 2016 and 2015, respectively, and accumulated amortization was $2 million at both December 31, 2016 and 2015. We include the amortization of the cost of assets under capital leases in depreciation and amortization expenses in our consolidated statements of operations.

**FUTURE MINIMUM ANNUAL LEASE PAYMENTS, INCLUDING INTEREST FOR THE CAPITAL LEASE (in millions)**

| | December 31, 2016 |
|---|---|
| 2017 | $ 1 |
| 2018 | 1 |
| 2019 | 1 |
| 2020 | 1 |
| 2021 | 1 |
| Thereafter | 7 |
| Total minimum lease payments | 12 |
| Less amount representing interest | (3) |
| Capital lease obligations | **$ 9** |

## NOTE 9 – BENEFIT PLANS

Employees supporting our operations participate in the benefit plans and the employee thrift plan of Tesoro. Tesoro allocates expense to the Partnership for costs associated with the benefit plans based on the salaries of Tesoro's employees that provide services to the Partnership as a percentage of total Tesoro salaries. The Predecessors were allocated expenses for costs associated with the benefit plans primarily based on the percentage of the Predecessors' allocated salaries compared to Tesoro's total salaries. Our portion of our Sponsor's employee benefit plan expenses was $24 million, $23 million and $14 million for the years ended December 31, 2016, 2015 and 2014, respectively. These employee benefit plan expenses and the related payroll costs are included in operating expenses and general and administrative expenses in our consolidated statements of operations and include amounts allocated to the Predecessors.

## NOTE 10 – COMMITMENTS AND CONTINGENCIES

### OPERATING LEASES, PURCHASE OBLIGATIONS AND OTHER COMMITMENTS

**FUTURE MINIMUM ANNUAL PAYMENTS APPLICABLE TO ALL NON-CANCELLABLE OPERATING LEASES AND PURCHASE OBLIGATIONS (in millions)**

| | Payments Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter | Total |
| Operating leases | $ 16 | $ 12 | $ 11 | $ 9 | $ 8 | $ 70 | $ 126 |
| Purchase obligations | 86 | 86 | 86 | 87 | 49 | — | 394 |
| **Total** | **$ 102** | **$ 98** | **$ 97** | **$ 96** | **$ 57** | **$ 70** | **$ 520** |

We have various cancellable and non-cancellable operating leases related to land, trucks, terminals, right-of-way permits and other operating facilities. In general, these leases have remaining primary terms up to 20 years and typically contain multiple renewal options. Total lease expense for all operating leases, including leases with a term of one month or less, was $11 million, $10 million and $8 million for the years ended December 31, 2016, 2015 and 2014, respectively. See Note 8 for information related to our capital leases. See Note 3 for a discussion of revenue recognized under agreements where TLLP is considered the lessor.

Our purchase obligations include enforceable and legally binding service agreement commitments that meet any of the following criteria: (1) they are non-cancellable, (2) we would incur a penalty if the agreement was canceled, or (3) we must make specified minimum payments even if we do not take delivery of the contracted products or services. If we can unilaterally terminate the agreement simply by providing a certain number of days' notice or by paying a termination fee, we have included the termination fee or the amount that would be paid over the notice period. Contracts that can be unilaterally terminated without a penalty are not included. Future purchase obligations primarily include fixed charges under the Amended Omnibus Agreement and the Secondment Agreement Amendment. Our Amended Omnibus Agreement remains in effect between the applicable parties until a change in control of the Partnership. As we are unable to estimate the termination of the omnibus agreement, we have included the fees for each of the five years following December 31, 2016 for the Amended Omnibus Agreement for disclosure purposes in the table above. Total expense under these service agreements was $192 million, $175 million and $117

million for the years ended December 31, 2016, 2015 and 2014, respectively. In addition to these purchase commitments, we also have minimum contractual capital spending commitments for approximately $82 million in 2017.

## INDEMNIFICATION

Under the Amended Omnibus Agreement and the Carson Assets Indemnity Agreement, Tesoro indemnifies us for certain matters, including environmental, title and tax matters associated with the ownership of our assets at or before the closing of the Initial Offering and the subsequent Acquisitions from Tesoro.

Under the Amended Omnibus Agreement, with respect to assets that we acquired from Tesoro, excluding the Los Angeles Terminal Assets and the Los Angeles Logistics Assets, indemnification for unknown environmental and title liabilities is limited to pre-closing conditions identified prior to the earlier of the date that Tesoro no longer controls our general partner or five years after the date of closing. The indemnification under the Initial Offering for unknown environmental matters expired on April 26, 2016. Under the Amended Omnibus Agreement, the aggregate annual deductible for each type of liability (unknown environmental liabilities or title matters) is approximately $1 million, as of December 31, 2016, before we are entitled to indemnification in any calendar year in consideration of the Initial Offering assets and all subsequent Acquisitions from Tesoro, with the exception of the Los Angeles Terminal Assets Acquisition and the Los Angeles Logistics Assets Acquisition. In addition, with respect to the assets that we acquired from Tesoro, we have agreed to indemnify Tesoro for events and conditions associated with the ownership or operation of our assets that occur after the closing of the Initial Offering, and the subsequent Acquisitions from Tesoro, and for environmental liabilities related to our assets to the extent Tesoro is not required to indemnify us for such liabilities.

Under the Carson Assets Indemnity Agreement, Tesoro retained responsibility for remediation of known environmental liabilities due to the use or operation of the Los Angeles Terminal Assets and the Los Angeles Logistics Assets prior to the acquisition dates, and has indemnified the Partnership for any losses incurred by the Partnership arising out of those remediation obligations. The indemnification for unknown pre-closing remediation liabilities is limited to five years. However, with respect to Terminal 2 at the Long Beach marine terminal, which was included in the Los Angeles Logistics Assets Acquisition, the indemnification for unknown pre-closing remediation liabilities is limited to ten years. Indemnification of the Los Angeles Terminal Assets' and the Los Angeles Logistics Assets' environmental liabilities are not subject to a deductible.

## OTHER CONTINGENCIES

In the ordinary course of business, we may become party to lawsuits, administrative proceedings and governmental investigations, including environmental, regulatory and other matters. The outcome of these matters cannot always be predicted accurately, but TLLP will accrue liabilities for these matters if the amount is probable and can be reasonably estimated. 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. Any contingencies arising from events after the Initial Offering, and the subsequent Acquisitions from Tesoro, will be the responsibility of TLLP.

## ENVIRONMENTAL LIABILITIES

**CHANGES IN OUR ENVIRONMENTAL LIABILITIES (in millions)**

| | Tioga Crude Oil Pipeline Release | Other Liabilities | Total |
|---|---|---|---|
| At December 31, 2014 | $ 25 | $ 7 | $ 32 |
| Additions | 24 | 1 | 25 |
| Expenditures | (22) | (2) | (24) |
| At December 31, 2015 | 27 | 6 | 33 |
| Additions | 7 | 1 | 8 |
| Expenditures | (18) | (1) | (19) |
| **At December 31, 2016** | **$ 16** | **$ 6** | **$ 22** |

## UNRESOLVED MATTERS

**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 during the next few years to restore the site for agricultural use. We accrued an additional $7 million during the year ended December 31, 2016, to reflect improved scope definition and estimates, which resulted in an increase in the total estimated cost associated with the project. This incident was covered by our pollution liability insurance policy, subject to a $1 million deductible and a $25 million loss limit in place at that time. Pursuant to this policy, there were no insurance recovery receivables related to the Crude Oil Pipeline Release at both December 31, 2016 and 2015. The estimated remediation costs of $73 million exceeded our policy loss limit by $48 million as of December 31, 2016. We received no insurance proceeds for the year ended December 31, 2016, and $18 million and $7 million in reimbursement of costs incurred during the years ended December 31, 2015 and 2014, respectively.

On October 7, 2015, we received an offer to settle a Notice of Violation ("NOV") from the North Dakota Department of Health ("NDDOH"). The NOV was issued on March 21, 2015, and alleges violations of water pollution regulations as a result of a release of crude oil that occurred near Tioga, North Dakota on our gathering and transportation pipeline system in September 2013. We are currently negotiating the settlement of this matter with the NDDOH. The ultimate resolution of the matter will not have a material impact on our liquidity, financial position, or results of operations.

**XTO ENERGY INC. V. QEP FIELD SERVICES COMPANY.** Prior to the Rockies Natural Gas Acquisition, XTO filed a complaint against QEPFS 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"). Tesoro Logistics processes XTO's natural gas on a firm basis under the XTO Agreement. The XTO Agreement requires Tesoro Logistics to transport, fractionate and market XTO's natural gas liquids derived from XTO's processed gas. XTO is seeking monetary damages related to Tesoro Logistics 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. Trial is set for July 2017.

In relation to $31 million of billed and unbilled amounts in our receivables that are subject to dispute with XTO as of December 31, 2016 as a result of this matter, we continue to believe that loss is not probable and estimable as we believe our allocation of applicable transportation, fractionation and marketing costs incurred by us related to minimum volume commitments made to us by XTO are permitted under the XTO Agreement and are consistent with industry standard. We have concluded continued recognition of revenue for charges allocated to XTO is appropriate under revenue recognition criteria including the fact that the costs being allocated are fixed and determinable and their collectability is deemed to be reasonably assured. Ultimate resolution of this matter is not expected to have a material impact on our liquidity or financial position, but the establishment of a reserve for uncollectible amounts subject to dispute may have a material impact on our results of operations in the period of establishment. A change in our ability to recognize revenue in future periods for the allocation of applicable transportation, fractionation, and marketing costs is not expected to have a material impact on our results of operations.

Other than described above, we do not have any other material outstanding lawsuits, administrative proceedings or governmental investigations. See current legal proceedings in Part I, Item 3.

## NOTE 11 – EQUITY

We had 68,926,453 common public units outstanding as of December 31, 2016. Additionally, Tesoro owned 34,055,042 of our common units, and 2,100,900 of our general partner units (the 2% general partner interest) as of December 31, 2016, which together constitutes a 34% ownership interest in us.

**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 were used for general partnership purposes, including debt repayment, acquisitions, capital expenditures and additions to working capital.

**ATM PROGRAM** On June 25, 2014, we filed a prospectus supplement to our shelf registration statement filed with the SEC in 2012, authorizing the continuous issuance of up to an aggregate of $200 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 "2014 ATM Program"). The 2014 ATM Program expired during the second quarter of 2015. During the years ended December 31, 2015 and 2014, we issued an aggregate of 819,513 and 199,400 common units under our 2014 ATM Program, generating proceeds of approximately $46 million and $14 million before issuance costs.

On August 24, 2015, we filed a prospectus supplement to our shelf registration statement filed with the Securities and Exchange Commission 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 "2015 ATM Program"). During the years ended December 31, 2016 and 2015, we issued an aggregate of 1,492,637 and 1,093,483 common units, respectively, under our 2015 ATM Program, generating proceeds of approximately $72 million and $57 million, respectively, before issuance costs. The net proceeds from issuances under the 2015 and 2014 ATM Programs were used for general partnership purposes, including debt repayment, acquisitions, capital expenditures and additions to working capital.

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

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

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| Net earnings | **$ 315** | $ 249 | $ 56 |
| Net earnings attributable to noncontrolling interest | **—** | (20) | (3) |
| Special allocation of net earnings ("Special Allocation") (a) | **3** | — | 7 |
| Net earnings, excluding noncontrolling interest and including special allocations | **318** | 229 | 60 |
| General partner's distributions | **(10)** | (6) | (5) |
| General partner's IDRs (b) | **(148)** | (69) | (41) |
| Limited partners' distributions on common units | **(344)** | (259) | (157) |
| Limited partner's distributions on subordinated units (c) | **—** | — | (14) |
| Distributions greater than earnings | **$ (184)** | $ (105) | $ (157) |
| General partner's earnings: | | | |
| Distributions | **$ 10** | $ 6 | $ 5 |
| General partners IDRs (b) | **148** | 69 | 41 |
| Allocation of distributions greater than earnings (d) | **(27)** | (44) | (49) |
| Total general partner's earnings (loss) | **$ 131** | $ 31 | $ (3) |
| Limited partners' earnings on common units: | | | |
| Distributions | **$ 344** | $ 259 | $ 157 |
| Special Allocation | **(3)** | — | (7) |
| Allocation of distributions greater than earnings | **(157)** | (61) | (98) |
| Total limited partners' earnings on common units | **$ 184** | $ 198 | $ 52 |
| Limited partner's earnings on subordinated units (c): | | | |
| Distributions | **$ —** | $ — | $ 14 |
| Allocation of distributions greater than earnings | **—** | — | (10) |
| Total limited partner's earnings on subordinated units | **$ —** | $ — | $ 4 |
| Weighted average limited partner units outstanding: | | | |
| Common units - basic | **98.2** | 84.7 | 54.2 |
| Common unit equivalents | **—** | 0.1 | — |
| Common units - diluted | **98.2** | 84.8 | 54.2 |
| Subordinated units - basic and diluted (c) | **—** | — | 5.6 |
| Net earnings per limited partner unit: | | | |
| Common - basic | **$ 1.87** | $ 2.33 | $ 0.96 |
| Common - diluted | **$ 1.87** | $ 2.33 | $ 0.96 |
| Subordinated - basic and diluted | **$ —** | $ — | $ 0.62 |

(a) Normal allocations according to percentage interests are made after giving effect, if any, to priority income allocations in an amount equal to incentive cash distributions fully allocated to the general partner and any special allocations. The adjustment reflects the special allocation to common units held by TLGP for the interest incurred in connection with borrowings on the Dropdown Credit Facility in lieu of using cash on hand to fund the Alaska Storage and Terminalling Assets acquisition during the year ended December 31, 2016.

(b) 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 $10 million of IDRs for the year ended December 31, 2015, waived by TLGP.

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

(d) We have revised the historical allocation of general partner earnings to include the Predecessors' losses of $24 million, $43 million and $46 million for the years ended December 31, 2016, 2015 and 2014, respectively.

**ALLOCATION OF THE GENERAL PARTNER'S INTEREST IN NET EARNINGS (in millions, except percentage of ownership interest)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Net earnings attributable to partners | **$ 339** | $ 272 | $ 99 |
| General partner's IDRs | **(148)** | (69) | (41) |
| Special Allocation | **3** | — | 7 |
| Net earnings available to partners | **$ 194** | $ 203 | $ 65 |
| General partner's ownership interest | **2.0%** | 2.0% | 2.0% |
| General partner's allocated interest in net earnings | **$ 4** | $ 4 | $ 1 |
| General partner's IDRs | **148** | 69 | 41 |
| Allocation of Predecessors' impact to general partner interest | **(24)** | (43) | (46) |
| Total general partner's interest in net earnings (loss) | **$ 128** | $ 30 | $ (4) |

**CHANGES IN THE NUMBER OF UNITS OUTSTANDING (in million units)**

| | Common | Subordinated | General Partner | Total |
|---|---|---|---|---|
| At December 31, 2013 | 39.1 | 15.3 | 1.1 | 55.5 |
| Issuances under ATM Program | 0.2 | — | — | 0.2 |
| Conversion in May 2014 of Tesoro's subordinated units to common units | 15.3 | (15.3) | — | — |
| Issuance in July 2014 in connection with the West Coast Logistics Assets acquisition | 0.3 | — | — | 0.3 |
| Issuance in August 2014 used primarily to redeem a portion of our 5.875% Senior Notes due 2020 | 2.1 | — | — | 2.1 |
| Issuance in October 2014 to fund the Rockies Natural Gas Business Acquisition | 23.0 | — | 0.5 | 23.5 |
| Unit-based compensation awards | 0.1 | — | — | 0.1 |
| At December 31, 2014 | 80.1 | — | 1.6 | 81.7 |
| Issuances under ATM Program | 1.9 | — | — | 1.9 |
| Issuance in July 2015 to effect the QEPM Merger | 7.1 | — | — | 7.1 |
| Issuance in November 2015 in connection with the LA Storage and Handling Assets acquisition | 4.3 | — | 0.3 | 4.6 |
| Unit-based compensation awards | 0.1 | — | — | 0.1 |
| At December 31, 2015 | 93.5 | — | 1.9 | 95.4 |
| Issuances under ATM Program | 1.4 | — | — | 1.4 |
| Issuance of units in June 2016 for cash (a) | 6.3 | — | — | 6.3 |
| Issuance in July 2016 in connection with the Alaska Storage and Terminalling Assets acquisition (b) | 0.4 | — | 0.2 | 0.6 |
| Issuance in September 2016 in connection with the Alaska Storage and Terminalling Assets acquisition (b) | 0.4 | — | — | 0.4 |
| Issuance in November 2016 in connection with the Northern California Terminalling and Storage Assets acquisition (c) | 0.9 | — | — | 0.9 |
| Unit-based compensation awards | 0.1 | — | — | 0.1 |
| **At December 31, 2016** | **103.0** | **—** | **2.1** | **105.1** |

(a) In June 2016, we issued common units representing limited partner interests in a registered public offering, including the over-allotment option exercised by the underwriter for the purchase of common units.

(b) On July 1 and September 16, 2016, we issued general partner and common units to Tesoro and TLGP in connection with the completion of the Alaska Storage and Terminalling Assets acquisition discussed in Note 2.

(c) On November 21, 2016, we issued common units to Tesoro and TLGP in connection with the Northern California Terminalling and Storage Assets acquisition discussed in Note 2.

**INCENTIVE DISTRIBUTION RIGHTS.** The following table illustrates the percentage allocations of available cash from operating surplus between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth under marginal percentage interest in distributions are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute, up to and including the corresponding amount in the column total quarterly distribution per unit target amount. The percentage interests shown for our unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. For illustrative purposes, the percentage interests set forth below for our general partner assume that there are no arrearages on common units, our general partner has contributed any additional capital necessary to maintain its 2% general partner interest and our general partner owns all of the IDRs.

**PERCENTAGE ALLOCATION FOR INCENTIVE DISTRIBUTION RIGHTS**

| | | Marginal percentage interest in distributions | | |
|---|---|---|---|---|
| | Total quarterly distribution per unit target amount | Unitholders | General Partner | Incentive Distribution Rights |
| Minimum Quarterly Distribution | $0.337500 | 98% | 2% | — |
| First Target Distribution | Above $0.337500 up to $0.388125 | 98% | 2% | — |
| Second Target Distribution | Above $0.388125 up to $0.421875 | 85% | 2% | 13% |
| Third Target Distribution | Above $0.421875 up to $0.506250 | 75% | 2% | 23% |
| Thereafter | Above $0.506250 | 50% | 2% | 48% |

In connection with the North Dakota Gathering and Processing Assets acquisition, our general partner agreed to ratably reduce its quarterly distributions with respect to incentive distribution rights by $100 million with respect to distributions during 2017 and 2018.

**DISTRIBUTIONS FOR ACQUISITIONS.** Distributions to unitholders and general partner include $760 million, $250 million, and $243 million in cash payments for acquisitions from Tesoro during 2016, 2015 and 2014, respectively. As an entity under common control with Tesoro, we record the assets that we acquire from Tesoro in our consolidated balance sheets at Tesoro's historical book value instead of fair value, and any excess of amounts paid over the historical book value of the assets acquired from Tesoro is recorded within equity. As a result of this accounting treatment, these transactions resulted in net decreases of $443 million, $211 million and $214 million in our equity balance during 2016, 2015 and 2014, 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. On January 18, 2017, in accordance with our partnership agreement, we announced the declaration of a quarterly cash distribution, based on the results of the fourth quarter of 2016, totaling $140 million, or $0.910 per limited partner unit. This distribution was paid on February 14, 2017 to unitholders of record on February 3, 2017.

**TOTAL QUARTERLY CASH DISTRIBUTIONS TO GENERAL AND LIMITED PARTNERS (in millions)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 (a) | 2015 (a) | 2014 (a) |
| General partner's distributions: | | | |
| General partner's distributions | **$ (10)** | $ (6) | $ (5) |
| General partner's IDRs (b) | **(148)** | (69) | (41) |
| Total general partner's distributions | **$ (158)** | $ (75) | $ (46) |
| Limited partners' distributions: | | | |
| Common | **$ (344)** | $ (259) | $ (157) |
| Subordinated | **—** | — | (14) |
| Total limited partners' distributions | **(344)** | (259) | (171) |
| Total Cash Distributions | **$ (502)** | $ (334) | $ (217) |

(a) Our distributions are declared subsequent to quarter end; therefore, the following table represents total cash distributions applicable to the period in which the distributions are earned.
(b) In connection with the Rockies Natural Gas Business Acquisition, our general partner waived its right to $10 million of general partner distributions with respect to IDRs during 2015.

## NOTE 12 – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash activities includes interest paid, net of capitalized interest, of $165 million, $137 million and $73 million for the years ended December 31, 2016, 2015 and 2014, respectively.

**SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES (in millions)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Capital expenditures included in accounts payable at period end | **$ 30** | $ 54 | $ 50 |
| Capital expenditures included in affiliate payable at period end | **8** | — | 17 |
| Capital leases and other | **2** | — | 4 |
| Predecessors' net liabilities not assumed by Tesoro Logistics LP | **22** | 3 | 1 |
| Receivable from affiliate for capital expenditures | **4** | 6 | 3 |

## NOTE 13 – OPERATING SEGMENTS

Our revenues are derived from three operating segments: Gathering, Processing, and Terminalling and Transportation.

Our gathering systems include crude oil and natural gas pipeline gathering systems in the Bakken Region and the Green River Basin, Uinta Basin and Vermillion Basin in the Rockies Region, including:

- the High Plains System;
- the Williston Gathering System, which consists of a crude oil and natural gas gathering system located in the Williston Basin, North Dakota;
- the Uinta Basin Gathering System, which consists of natural gas gathering systems and compression assets located in northeastern Utah;
- the Green River System, which consists of an integrated natural gas gathering and transportation system;
- the Vermillion Gathering System, which consists of natural gas gathering and compression assets located in Southern Wyoming, northwest Colorado and northeast Utah; and
- equity method investments, which operate gathering pipeline and gas compression assets and transports natural gas to our natural gas processing facilities, located in the Uinta Basin.

Our Processing segment consists of gas processing and fractionation complexes, including:

- the Vermillion processing complex;
- the Uinta Basin processing complex;
- the Blacks Fork processing complex fractionation facility; and
- the Emigrant Trail processing complex.

Our Terminalling and Transportation segment consists of:

- crude oil and refined products terminals and storage facilities in the western and midwestern U.S. that are supplied by Tesoro-owned and third-party pipelines, trucks and barges;
- marine terminals in California that load and unload vessels;
- pipelines, which transport products and crude oil from Tesoro's refineries to nearby facilities in Salt Lake City and Los Angeles and a 50% fee interest in a pipeline that transports jet fuel from Tesoro's Los Angeles refinery to the Los Angeles International Airport;
- a regulated common carrier products pipeline and a jet fuel pipeline to the Salt Lake City International Airport
- a rail-car unloading facility in Washington;
- a petroleum coke handling and storage facility in Los Angeles; and
- a regulated common carrier refined products pipeline system

Our revenues are generated from commercial agreements we have entered into with Tesoro, under which Tesoro pays us fees, and from third-party contracts for gathering crude oil and natural gas, processing natural gas and distributing, transporting and storing crude oil, refined products, natural gas and NGLs. The commercial agreements with Tesoro are described in Note 3. We do not have any foreign operations.

The operating segments adhere to the accounting polices used for our consolidated financial statements, as described in Note 1. Our operating segments are strategic business units that offer different services in different geographical locations. We evaluate the performance of each segment based on its respective operating income. Certain general and administrative expenses and interest and financing costs are excluded from segment operating income as they are not directly attributable to a specific operating segment. Identifiable assets are those used by the segment, whereas other assets are principally cash, deposits and other assets that are not associated with a specific operating segment.

**SEGMENT INFORMATION RELATING TO CONTINUING OPERATIONS (in millions)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **Revenues** | | | |
| Gathering: | | | |
| Affiliate | $ 81 | $ 89 | $ 105 |
| Third-party | 258 | 250 | 30 |
| Total Gathering | 339 | 339 | 135 |
| Processing: | | | |
| Affiliate | 98 | 96 | 7 |
| Third-party | 178 | 182 | 16 |
| Total Processing | 276 | 278 | 23 |
| Terminalling and Transportation: (a) | | | |
| Affiliate | 536 | 430 | 385 |
| Third-party | 69 | 65 | 57 |
| Total Terminalling and Transportation | 605 | 495 | 442 |
| Total Segment Revenues | $ 1,220 | $ 1,112 | $ 600 |
| **Segment Operating Income** | | | |
| Gathering | $ 132 | $ 142 | $ 47 |
| Processing | 111 | 105 | 6 |
| Terminalling and Transportation | 297 | 200 | 150 |
| Total Segment Operating Income | 540 | 447 | 203 |
| Unallocated general and administrative expenses | (53) | (54) | (39) |
| Interest and financing costs, net | (191) | (150) | (109) |
| Equity in earnings of equity method investments | 13 | 7 | 1 |
| Other Income, net | 6 | — | — |
| Earnings Before Income Taxes | $ 315 | $ 250 | $ 56 |
| **Depreciation and Amortization Expense** | | | |
| Gathering | $ 62 | $ 67 | $ 11 |
| Processing | 45 | 44 | 4 |
| Terminalling and Transportation | 83 | 76 | 70 |
| Total Depreciation and Amortization Expense | $ 190 | $ 187 | $ 85 |
| **Capital Expenditures** | | | |
| Gathering | $ 99 | $ 213 | $ 156 |
| Processing | 20 | 15 | 4 |
| Terminalling and Transportation | 154 | 158 | 112 |
| Total Capital Expenditures | $ 273 | $ 386 | $ 272 |

(a) Our Predecessors 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, except for the RCA tariffs charged to Tesoro on the refined products pipeline included in the acquisition of the West Coast Logistics Assets.

**TOTAL IDENTIFIABLE ASSETS BY OPERATING SEGMENT (in millions)**

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| **Identifiable Assets** | | |
| Gathering | **$ 1,765** | $ 1,850 |
| Processing | **1,627** | 1,619 |
| Terminalling and Transportation | **1,768** | 1,641 |
| Other (a) | **700** | 21 |
| Total Identifiable Assets | **$ 5,860** | $ 5,131 |

(a) Other consists mainly of $688 million in cash and cash equivalents as of December 31, 2016, which was used to fund the acquisition of the North Dakota Gathering and Processing Assets on January 1, 2017.

## NOTE 14 – QUARTERLY FINANCIAL DATA (UNAUDITED)

| | Quarters | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total Year |
| **2016** | (In millions, except per unit amounts) | | | | |
| Revenues | $ 300 | $ 293 | $ 308 | $ 319 | **$ 1,220** |
| Operating expenses | 117 | 113 | 113 | 128 | **471** |
| Operating income | 119 | 118 | 127 | 123 | **487** |
| Net earnings | 85 | 76 | 81 | 73 | **315** |
| Limited partners' interest in net earnings | 60 | 47 | 48 | 32 | **187** |
| Net earnings per limited partner unit (a): | | | | | |
| Common - basic | $ 0.64 | $ 0.48 | $ 0.46 | $ 0.31 | **$ 1.87** |
| Common - diluted | $ 0.64 | $ 0.48 | $ 0.46 | $ 0.31 | **$ 1.87** |
| **2015** | | | | | |
| Revenues | $ 263 | $ 275 | $ 282 | $ 292 | $ 1,112 |
| Operating expenses | 101 | 115 | 117 | 135 | 468 |
| Operating income | 99 | 97 | 100 | 97 | 393 |
| Net earnings | 65 | 60 | 65 | 59 | 249 |
| Limited partners' interest in net earnings | 50 | 49 | 54 | 46 | 199 |
| Net earnings per limited partner unit (a): | | | | | |
| Common - basic | $ 0.63 | $ 0.60 | $ 0.62 | $ 0.49 | $ 2.33 |
| Common - diluted | $ 0.63 | $ 0.60 | $ 0.62 | $ 0.49 | $ 2.33 |

(a) The sum of four quarters may not equal annual results due to rounding or the quarterly number of units outstanding.

## ITEM 9.CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINA DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### DISCLOSURE CONTROLS AND PROCEDURES

Our disclosure controls and procedures are designed to provide reasonable assurance that the information that we are required to disclose in reports we file under the Securities Exchange Act of 1934, as amended ("the Exchange Act"), is accumulated and appropriately communicated to management. There have been no significant changes in our internal controls over financial reporting (as defined by applicable Securities and Exchange Commission rules) during the quarter ended December 31, 2016 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

We carried out an evaluation required by Rule 13a-15(b) of the Exchange Act, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures at the end of the reporting period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

### MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Tesoro Logistics LP and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. The Partnership's internal control system is designed 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 in the United States of America. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013 framework). Based on such assessment, management concluded that as of December 31, 2016, the Partnership's internal control over financial reporting is effective.

The independent registered public accounting firm of Ernst & Young LLP, as auditors of the Partnership's consolidated financial statements, has issued an attestation report on the effectiveness of the Partnership's internal control over financial reporting, included herein.

## ITEM 9B. OTHER INFORMATION

None.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Tesoro Logistics GP, LLC and
Unitholders of Tesoro Logistics LP

We have audited Tesoro Logistics LP's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Tesoro Logistics LP's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Tesoro Logistics LP maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Tesoro Logistics LP as of December 31, 2016 and 2015, and the related consolidated statements of operations, partners' equity and cash flows for each of the three years in the period ended December 31, 2016 and our report dated February 21, 2017 expressed an unqualified opinion thereon.

San Antonio, Texas
February 21, 2017

# PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Tesoro Logistics GP, LLC ("TLGP"), our general partner, is a wholly-owned subsidiary of Tesoro Corporation ("Tesoro"). Our general partner manages our operations and activities on our behalf through its officers and directors. References in this Part III to the "Board," "directors," or "officers" refer to the Board, directors and officers of our general partner.

### DIRECTOR EXPERIENCE AND QUALIFICATIONS

We believe that the Board, as a whole, should possess a combination of skills, professional experience, and diversity of backgrounds and perspectives necessary to oversee our business and bring different experiences and perspectives to the Board. In addition, there are certain attributes that every director should possess, which are described below. Accordingly, Tesoro and the Board consider the qualifications of directors and director candidates individually and in the broader context of the Board's overall composition and our current and future needs.

The Board is responsible for annually reviewing the appropriate skills and characteristics required of directors in the context of the current makeup of the Board. As set forth in the Corporate Governance Guidelines, these criteria include issues of diversity, age, education, skills, integrity, leadership and judgment all in the context of an assessment of the perceived needs of the Board at that point in time. Among other things, the Board has determined that it is important to have members with the following skills and experiences:

- **Leadership experience,** as directors with experience in significant leadership positions possess strong abilities to motivate and manage others and to identify and develop leadership qualities in others.
- **Knowledge of the energy industry,** particularly logistics operations, which is integral to understanding our business and strategy.
- **Operations experience,** as it gives directors a practical understanding of developing, implementing and assessing our business strategy and operating plan.
- **Risk management experience,** which is critical to the Board's oversight of our risk assessment and risk management programs.
- **Financial/accounting experience,** particularly knowledge of finance and financial reporting processes, which is relevant to understanding and evaluating our capital structure and overseeing the preparation of our financial statements, and internal controls over financial reporting.
- **Government/regulatory experience,** as we operate in a heavily regulated industry that is directly affected by governmental requirements.
- **Strategic planning experience,** which is relevant to the Board's review of our strategies and monitoring their implementation and results.
- **Talent management experience,** which is valuable in helping us attract, motivate and retain top candidates for management positions.
- **Public company board service,** as directors who have served on other public company boards have experience overseeing and providing insight and guidance to management.

The specific qualifications and experience of the individual directors are set forth below.

### DIRECTORS AND EXECUTIVE OFFICERS OF TESORO LOGISTICS GP, LLC (OUR GENERAL PARTNER)

Our common unitholders do not nominate candidates for, or vote for the election of, the directors of the general partner. The general partner is a limited liability company, and its directors are elected by its sole member, which is Tesoro Corporation. The directors of our general partner hold office for a term of one year or their earlier death, resignation or removal, or until their successors are duly elected and qualified. The executive officers of the general partner are elected by the Board and hold office until their successors are duly elected and qualified or until their death, resignation or removal.

## CURRENT DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER

**GREGORY J. GOFF**, 60, was appointed Chief Executive Officer and Chairman of the Board of Directors of our general partner in December 2010. Mr. Goff has also served as Chief Executive Officer and President of Tesoro since May 2010, and Chairman of Tesoro since December 31, 2014. While he devotes the majority of his time to his roles at Tesoro, Mr. Goff also spends time directly managing our business and affairs. Prior to joining Tesoro, Mr. Goff served as Senior Vice President, Commercial for ConocoPhillips Corporation, an international, integrated energy company, from 2008 to 2010. Mr. Goff also held various positions at ConocoPhillips from 1981 to 2008, including Managing Director and CEO of Conoco JET Nordic from 1998 to 2000; Chairman and Managing Director of Conoco Limited, a UK-based refining and marketing affiliate, from 2000 to 2002; President of ConocoPhillips Europe and Asia Pacific downstream operations from 2002 to 2004; President of ConocoPhillips U.S. Lower 48 and Latin America exploration and production business from 2004 to 2006; and President of ConocoPhillips specialty businesses and business development from 2006 to 2008. Mr. Goff serves as Chairman of the Board of the American Fuel and Petrochemical Manufacturers trade association and on the National Advisory Board of the University of Utah Business School. Previously, Mr. Goff served on the board of Chevron Phillips Chemical Company and was a member of the upstream and downstream committees of the American Petroleum Institute. In addition, Mr. Goff has public company experience from his prior service on the board of directors of DCP Midstream GP, LLC. Mr. Goff received a Bachelor's degree in Science and Master's degree in Business Administration from the University of Utah.

We believe Mr. Goff brings to the Board a deep understanding of and unique perspective on our business, operations and market environment, as well as that of Tesoro. Mr. Goff also brings to the Board leadership, industry, strategic planning and operations experience.

*Other Current Public Company Directorships* Polyone Corporation, Tesoro Corporation (Tesoro and its subsidiaries collectively own approximately 34% of our partnership interests)

*Former Public Company Directorships*: DCP Midstream LP (from 2008 until 2010), QEP Midstream Partners, LP (from December 2014 until August 2015)

**PHILLIP M. ANDERSON**, 51, was appointed President and a member of the Board of Directors of our general partner in December 2010. Mr. Anderson served as Vice President, Strategy for Tesoro from April 2010 until December 2010. Prior to that, he served Tesoro as Vice President, Financial Optimization & Analytics beginning in June 2008 and Vice President, Treasurer beginning in June 2007. Mr. Anderson joined Tesoro in December 1998 as Senior Financial Analyst and worked in a variety of strategic and financial roles. Mr. Anderson worked extensively on Tesoro's acquisitions and divestitures from 1999 through 2010, including valuation, negotiating, analysis, diligence and financing activities. Mr. Anderson began his career in 1991 at Ford Motor Company and worked in a variety of financial roles at that company. Mr. Anderson received a Bachelor's degree in Economics from the University of Texas at Austin and received a Master's degree in Business Administration with a concentration in finance from Southern Methodist University.

We believe that Mr. Anderson's extensive energy industry background, particularly his expertise in corporate strategy and business development, brings important experience and skills to the Board.

*Former Public Company Directorships*: QEP Midstream Partners, LP (from December 2014 until August 2015)

**RAYMOND J. BROMARK**, 71, was elected as a member of the Board of Directors of our general partner in March 2011. Mr. Bromark is a retired Partner of PricewaterhouseCoopers LLP ("PwC"), an international accounting and consulting firm. He joined PwC in 1967 and became a Partner in 1980. He was Partner and Head of the Professional, Technical, Risk and Quality Group of PwC from 2000 to 2006, a Global Audit Partner from 1994 to 2000 and Deputy Vice Chairman, Auditing and Business Advisory Services from 1990 to 1994. In addition, he served as a consultant to PwC from 2006 to 2007. In previous years, Mr. Bromark has participated as a member of the Advisory Board of the University of Delaware's Weinberg Center for Corporate Governance. Mr. Bromark was PwC's representative on the Executive Committee of the American Institute of Certified Public Accountants' ("AICPA") Center for Public Company Audit Firms. He has also been a member of the Financial Accounting Standards Board Advisory Council, the Public Company Accounting Oversight Board's Standing Advisory Group, the AICPA's Special Committee on Financial Reporting, the AICPA's Securities and Exchange Commission ("SEC") Practice Section Executive Committee and the AICPA's Ethics Executive Committee. Mr. Bromark earned a Bachelor's of Science degree in business management from Quincy University.

We believe that Mr. Bromark's extensive experience in accounting, auditing, financial reporting, compliance and regulatory matters; deep understanding of financial controls and familiarity with large public company audit clients; and extensive experience in leadership positions at PwC bring important and necessary skills to the Board.

*Other Current Public Company Directorships:* CA, Inc., YRC Worldwide Inc., Pacific Exploration & Production Corp.

*Former Public Company Directorships:* Word Color Press, Inc. (from 2009 to 2010)

**ROBERT W. GOLDMAN**, 74, was elected as a member of the Board of Directors of our general partner in April 2015. Mr. Goldman has been an independent financial consultant since 2002 and a member of the Board of Directors of Tesoro Corporation, which owns our general partner, since 2004. From July 1998 to October 2002, he was Senior Vice President and Chief Financial Officer of Conoco Inc., an international, integrated energy company. Prior to joining Conoco in 1988 as its Vice President and Controller and subsequently serving as Senior Vice President, Finance, he worked for E.I. Du Pont de Nemours & Co., Inc. in a variety of financial and operating roles. Mr. Goldman is a member of the Advisory Board of the Energy Policy Institute at Chicago. He also served on the Advisory Council of Nominating and Governance Chairs of the National Association of Corporate Directors through 2013. He is a former chairman of the Accounting Committee of the American Petroleum Institute and former member of the Outside Advisory Council of Global Infrastructure Partners. He served as Vice President, Finance of the London-based World Petroleum Council from 2002 to July 2008.

We believe that Mr. Goldman's background in the energy industry (including his service on the Board of Directors of Tesoro Corporation, which controls our general partner), his extensive financial and accounting experience, and his prior and current service as a member of several public company boards of directors bring important and necessary skills to the Board.

*Other Current Directorships:* BWX Technologies, Inc., FRG Development Company (a private equity company in Mexico City), Tesoro Corporation (Tesoro and its subsidiaries collectively own approximately 34% of our partnership interests)

*Former Public Company Directorships:* The Babcock & Wilcox Company (from 2010 until 2014), El Paso Corporation (from 2003 until 2012), McDermott International Inc. (from 2005 until 2010), Parker Drilling Company (from 2005 until 2015)

**JAMES H. LAMANNA**, 63, was elected as a member of the Board of Directors of our general partner in March 2012. Since January 2011, Mr. Lamanna has served as President of Timeless Triumph LLC, a consulting firm providing advice to companies in the oil and gas industry regarding business plans; health, safety, security and environmental performance; operational efficiency; and plant reliability. From November 2014 to November 2015, he served as a non-executive member of the Board of Directors of North Atlantic Refining Limited, a refining and marketing business in Newfoundland, Canada. Since August 2016, Mr. Lamanna also serves as a non-executive member of the Board of Island Energy Services, LLC, a refining and marketing business in Hawaii. From 2003 to 2010, Mr. Lamanna held a variety of roles with BP p.l.c., a multinational oil and gas company, and its subsidiaries. During that time, he was President of BP Pipelines (North America) Inc. from April 2003 through August 2006, Senior Vice President of BP's U.S. Pipelines and Logistics operations from September 2006 through August 2009 and Vice President of Special Projects for BP's U.S. Refining and Marketing operations from September 2009 through December 2010. Mr. Lamanna earned a Bachelor's of Science degree in chemical engineering from the University of Virginia.

We believe that Mr. Lamanna's extensive background in both the energy and logistics industries, particularly the leadership skills he developed while serving in several executive positions, brings important leadership and strategic experience to the Board.

*Other Current Directorships:* Island Energy Services, LLC

**THOMAS C. O'CONNOR**, 61, was elected as a member of the Board of Directors of our general partner in May 2011. From November 2007 through December 2012, Mr. O'Connor served as Chairman of the Board of Directors and CEO of DCP Midstream, LLC, one of the nation's largest natural gas gatherers, processors, and marketers in the United States; he continued to serve as Chairman of the Board until March 2013. From November 2007 through September 2012, he also served as President of DCP Midstream, LLC. In September 2008, he assumed additional responsibility as Chairman of the Board of DCP Midstream GP, LLC, the general partner of DCP Midstream Partners, LP, a publicly held master limited partnership, which position he held until December 2013. Prior to joining DCP Midstream, LLC, Mr. O'Connor had over 21 years of experience in the energy industry with Duke Energy, Corp. a gas and electricity services provider. From 1987 to 2007, Mr. O'Connor held a variety of roles with Duke Energy in the company's natural gas pipeline, electric and commercial business units. After serving in a number of leadership positions with Duke Energy, he was named President and Chief Executive Officer of Duke Energy Gas Transmission in 2002 and he was named Group Vice President of corporate strategy at Duke Energy in 2005. In 2006 he became Group Executive and Chief Operating Officer of U.S. Franchised Electric and Gas and later in 2006 was named Group Executive and President of Commercial Businesses at Duke Energy. Mr. O'Connor earned a Bachelor's of Science degree in biology, Cum Laude, and a Master of Science degree in environmental studies from the University of Massachusetts at Lowell. He also completed the Harvard Business School Advanced Management Program.

We believe that Mr. O'Connor's extensive background in both the energy and logistics industries, particularly the leadership skills he developed while serving in several executive positions, brings important leadership and strategic experience to the Board.

*Other Current Public Company Directorships*: Keyera Corp., 8point3 Energy Partners LP

*Former Public Company Directorships*: DCP Midstream LP (from September 2008 until December 2013) and QEP Resources Inc. (from January 2014 until January 2015)

**BLANE W. PEERY**, 50, was appointed Vice President and Controller in November 2016. Mr. Peery has served as Vice President, Process Excellence and Chief Information Officer of TCI, a subsidiary of Tesoro Corporation, since February 2015. Mr. Peery has experience leading global accounting organizations, business planning and analysis functions, supply chain groups, global shared services including finance, human resources, information technology, and mergers and acquisitions integration. From March 2014 to February 2015, Mr. Peery served as VP, Global Business Services at Mylan N.V., a leading global pharmaceutical company. Prior to that he worked for Celanese Corporation, a global technology and specialty materials company, for over 20 years in roles with increasing responsibility, including positions as its Vice President, Global Business Services from October 2012 to March 2014, its Vice President, Supply Chain from October 2011 to October 2012 and its first-ever Global Accounting Director. Mr. Peery began his career as an auditor for PricewaterhouseCoopers and is a Certified Public Accountant (CPA). He holds a Bachelor of Business Administration degree in accounting from the University of Texas at Austin.

**KIM K. W. RUCKER**, 50, was appointed Executive Vice President and General Counsel in March 2016. She has also served as Executive Vice President, General Counsel and Secretary for Tesoro since March 2016. Before joining Tesoro, Ms. Rucker served as Executive Vice President, Corporate and Legal Affairs, General Counsel and Corporate Secretary of Kraft Food Groups, Inc., a food and beverage company (now The Kraft-Heinz Company), from October 2012 to July 2015. She joined Mondelēz International as Executive Vice President, Corporate & Legal Affairs, Kraft Foods North America in September 2012. Prior to that, she served as Senior Vice President, General Counsel and Chief Compliance Officer of Avon Products, Inc., a global manufacturer of beauty and related products, beginning in March 2008 and as Corporate Secretary in February 2009. Ms. Rucker also served as Senior Vice President, Secretary and Chief Governance Officer of Energy Future Holdings Corp. (formerly TXU Corp.), an energy company, from 2004 to 2008. She was also Corporate Counsel for Kimberly-Clark Corporation and a Partner in the Corporate & Securities group at Sidley Austin LLP in Chicago. Ms. Rucker serves on the board of directors of Lennox International Inc. She holds a Bachelor of Business Administration degree in economics from the University of Iowa, a law degree from the Harvard Law School and a master's in public policy from the John F. Kennedy School of Government at Harvard University.

**DON J. SORENSEN**, 49, was appointed as Senior Vice President, Operations of our general partner in April 2016, having served with the title Vice President, Operations since January 2015. He has also served as Senior Vice President, Logistics of TCI, a subsidiary of Tesoro Corporation, since January 2015. Mr. Sorensen previously served as Vice President, Integration of TCI beginning in August 2012, most recently leading the integration effort on the acquisition of QEP Field Services, LLC. Mr. Sorensen also previously served as Vice President of Tesoro's Anacortes refinery from 2007 to 2012. Mr. Sorensen holds a Bachelor's of Science degree in chemical engineering from the Colorado School of Mines, and a Master of Business Administration from the University of Utah.

**STEVEN M. STERIN**, 45, was appointed Executive Vice President, Chief Financial Officer and a member of the Board of Directors of our general partner in April 2016, having served as Vice President, Chief Financial Officer and a member of the Board of Directors since August 2014. Since August 2014, he has served as Executive Vice President, Chief Financial Officer of Tesoro Corporation. Mr. Sterin devotes the majority of his time to his role at Tesoro, and also spends time, as needed, devoted to our business and affairs. Prior to Tesoro, Mr. Sterin was Senior Vice President and Chief Financial Officer for Celanese Corporation, a global technology and specialty material company, from July 2007 until May 2014 and continued to serve as an employee until August 2014. From December 2010 through January 2013, he was also president of Celanese's Advanced Fuel Technologies business. Mr. Sterin joined Celanese in 2003 as Director of Finance and Controller for the company's chemical business and also served as Corporate Controller and Principal Accounting Officer before being appointed CFO. Before Celanese, Mr. Sterin spent six years with global chemicals company Reichhold, Inc. in a variety of financial positions, including Director of Tax and Treasury in the Netherlands, Global Treasurer and Vice President of Finance for one of the company's divisions in North Carolina. Mr. Sterin holds a Master of Professional Accounting degree and a Bachelor of Business Administration degree in accounting, which he earned concurrently at the University of Texas at Austin. He is also a certified public accountant in Texas.

We believe that Mr. Sterin's expertise in financial reporting, finance, corporate analytics, internal audit, investor relations, taxes, treasury and information technology bring important experience and skills to the Board.

*Former Public Company Directorship:* QEP Midstream Partners, LP (from December 2014 until August 2015)

**STEPHAN E. TOMPSETT**, 40, was appointed Vice President and Treasurer in August 2016. From May 2015 through August 2016, he served as Chief Financial Officer, Logistics for TCI, a subsidiary of Tesoro. Prior to that time, Mr. Tompsett served in a variety of finance roles at Energy Transfer Partners from February 2011 to May 2015. From September 2008 to January 2011, he

was Vice President, Corporate Development at Synthesis Energy Systems. He was an associate at JPMorgan from July 2005 to August 2008. Mr. Tompsett holds a Master of Business Administration degree from the University of Texas at Austin - Red McCombs School of Business and a Bachelors of Science degree in biology and mathematics from the University of Texas at Austin.

**MICHAEL E. WILEY**, 66, was elected as a member of the Board of Directors of our general partner in April 2015. Mr. Wiley has over 40 years of experience in the energy industry and has served as a member of the Board of Directors of Tesoro Corporation, which owns our general partner, since 2005. Most recently he served as Chairman of the Board, President and Chief Executive Officer of Baker Hughes Incorporated, an oilfield services company, from August 2000 until his retirement in October 2004. He was President and Chief Operating Officer of Atlantic Richfield Company, an integrated energy company, from 1998 through May 2000. Prior to 1998, he served as Chairman, President and Chief Executive Officer of Vastar Resources, Inc., an independent oil and gas company. Mr. Wiley is a director of Bill Barrett Corporation, an independent oil and gas company, and Post Oak Bank, N.A., a Houston-based community bank. He also serves as Chairman of Independent Trustees of Fidelity Sector Portfolios.

We believe that Mr. Wiley's extensive background in the energy industry, particularly the leadership skills, strategic planning, and risk management skills he developed while serving in several executive positions; and his prior and current service as a member of several public company boards of directors (including his service on the Board of Directors of Tesoro Corporation, which controls our general partner) brings important leadership and strategic experience to the Board.

*Other Current Public Company Directorships* Bill Barrett Corporation, Post Oak Bank, N.A., Tesoro Corporation (Tesoro and its subsidiaries collectively own approximately 34% of our partnership interests)

## DIRECTOR INDEPENDENCE

The Board of Directors currently consists of eight directors, three of whom are independent and five of whom are representatives of Tesoro or our general partner. Because we are a limited partnership, we are not required to have a majority of independent directors. The Board undertook its annual review of director independence in February 2017 and in the process reviewed the independence of each director. The purpose of these reviews was to determine whether any of the directors had relationships or transactions that were inconsistent with a determination that the nominee is independent. Based on this review, the Board affirmatively determined that each of Messrs. Bromark, Lamanna and O'Connor has no material relationship with us and has satisfied the independence requirements of the New York Stock Exchange ("NYSE") and our Corporate Governance Guidelines.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our general partner's directors and executive officers, as well as holders of more than 10% of our voting stock to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock or other equity securities. Based on a review of those forms provided to us and any written representations, we believe that during the year ended December 31, 2016, our directors, executive officers and holders of more than 10% of our voting stock filed the required reports on a timely basis under Section 16(a).

## BOARD LEADERSHIP STRUCTURE

Mr. Goff, our general partner's Chief Executive Officer, serves as Chairman of the Board. The Board believes that he is the director most familiar with TLLP's business and industry, and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. Independent directors and management have different perspectives and roles in strategy development. Our independent directors bring experience, oversight and expertise from outside the Partnership and industry, while the Chief Executive Officer brings TLLP-specific experience and expertise. Due to the nature of our business, the impact of Tesoro's strategy upon TLLP's strategy and the continued business relationships between Tesoro and TLLP, the Board believes that the combined role of Chairman of the Board and Chief Executive Officer promotes strategy development and execution and facilitates information flow between management and the Board. In addition, our Corporate Governance Guidelines specify that the Chairman of the Audit Committee will serve as the lead independent director (the "Lead Director"). At each quarterly meeting of the Board, all of our non-management directors meet in an executive session without management participation. Mr. Bromark, who currently serves as the Lead Director, presides at these executive sessions.

One of the key responsibilities of the Board is to develop strategic direction and hold management accountable for the execution of strategy once it is developed. The Board believes the combined role of Chairman of the Board and Chief Executive Officer, together with a Lead Director, is in the best interest of unitholders because it provides the appropriate balance between strategy development and independent oversight of management.

## COMMITTEES OF THE BOARD OF DIRECTORS

The Board has an Audit Committee and a Conflicts Committee, each of which has a written committee charter. The Audit Committee charter is available on our website at www.tesorologistics.com under "Corporate Governance." The Board has determined that all of the members of the Audit and Conflicts Committees of the Board meet the independence requirements of the NYSE and the SEC, as applicable. Because we are a limited partnership, we are not required to have a compensation committee or a nominating/corporate governance committee.

**AUDIT COMMITTEE** The Audit Committee assists the Board in fulfilling its responsibility to us and our unitholders relating to its oversight of management and its auditors concerning:

- corporate accounting and financial reporting practices;
- the quality and integrity of our financial statements;
- the independent auditor's qualifications, independence, and performance;
- the performance of our internal audit function; and
- our systems of disclosure controls and procedures and internal controls over financial reporting.

The Audit Committee is composed of Messrs. Bromark, Lamanna and O'Connor, each of whom the Board has determined is financially literate. The Board also has determined that each of Messrs. Bromark and O'Connor qualifies as an "audit committee financial expert," as defined by SEC rules. Neither Mr. Lamanna nor Mr. O'Conner serves on the audit committees of more than three public companies, including us. Mr. Bromark currently serves on the audit committees of four public companies, including us. Our board has considered such service and determined that it does not impair Mr. Bromark's ability to effectively serve on our Audit Committee. Mr. Bromark acts as Chair of the Audit Committee.

**AUDIT COMMITTEE REPORT.** The Audit Committee represents and assists the Board in fulfilling its responsibilities for general oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, the independent auditors' qualifications and independence and the performance of our internal audit function and independent audit firm.

The Audit Committee manages our relationship with our independent auditors (which report directly to the Audit Committee). The Audit Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors as the Audit Committee deems appropriate and receives appropriate funding, as determined by the Audit Committee, from us for such advice and assistance.

Our management is primarily responsible for our internal control and financial reporting processes. Our independent auditors, Ernst & Young LLP ("EY"), are responsible for performing an independent audit of our consolidated financial statements and an audit of our internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB") and issuing their reports thereon. The Audit Committee monitors our financial reporting process and reports to the Board on its findings.

In this context, the Audit Committee reports:

**(1)** The Audit Committee has reviewed and discussed the audited financial statements with management.

**(2)** The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by applicable PCAOB standards.

**(3)** The Audit Committee has received the written disclosures and the letter from the independent auditors required by the PCAOB regarding the independent auditors' communications with the Audit Committee concerning independence and has discussed with the independent auditors their independence.

**(4)** Based on the review and discussions referred to in paragraphs (1) through (3) above, the Audit Committee recommended to the Board, and the Board has approved, that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2016, for filing with the SEC.

The undersigned members of the Audit Committee have submitted this Report to the Board of Directors as of February 21, 2017.

Raymond J. Bromark, Chairman
James H. Lamanna

Thomas C. O'Connor

**CONFLICTS COMMITTEE.** Our partnership agreement contains provisions that modify and limit our general partner's fiduciary duties to our unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions taken by our general partner that, without those limitations, might constitute breaches of its fiduciary duty. Whenever a conflict arises between our general partner or its affiliates, on the one hand, and us and our limited partners, on the other hand, our general partner will resolve that conflict. Our general partner may, but is not required to, seek the approval of such resolution from our conflicts committee. The conflicts committee will determine whether the resolution of the conflict of interest is fair and reasonable to us. The members of the conflicts committee may not be officers or employees of our general partner or directors, officers, or employees of its affiliates and must meet the independence and experience standards established by the NYSE for audit committee members. Any matters approved by the conflicts committee will be conclusively deemed to be approved by all of our partners and not a breach by our general partner of any duties it may owe us or any other partners. Each of Messrs. Bromark, Lamanna and O'Connor serves on the Conflicts Committee, and Mr. O'Connor acts as Chair of the Conflicts Committee.

**COMPENSATION DECISIONS.** We do not have a compensation committee. Our Corporate Governance Guidelines provide that the Chairman of the Board and the independent directors are collectively responsible for:

- reviewing our executive compensation programs to ensure that they are adequate to attract, motivate and retain competent executive personnel and that they directly and materially relate to our short-term and long-term objectives and operating performance;
- reviewing and approving all aspects of direct and indirect compensation other than retirement and benefits for our executive officers who do not also serve as executive officers of Tesoro; and
- administering and granting awards to our officers and employees under our long-term incentive plan.

The Chairman of the Board abstains from voting in any decision related to his own compensation, which is approved solely by the independent directors.

## CODE OF BUSINESS CONDUCT AND CORPORATE GOVERNANCE GUIDELINES

We have adopted a Code of Business Conduct and Ethics for Senior Financial Executives that is specifically applicable to the CEO, the CFO, the Controller and persons performing similar functions. In addition, we have a Code of Business Conduct that applies to all of our directors, officers and employees. We have also adopted Corporate Governance Guidelines that, along with the charters of our Board committees, provide the framework for our governance processes. Our Code of Business Conduct and Ethics for Senior Financial Executives, Code of Business Conduct, and Corporate Governance Guidelines are available on our website at www.tesorologistics.com under "Corporate Governance." We will post on our website any amendments to, or waivers from, either of our Codes requiring disclosure under applicable rules within four business days following the date of the amendment or waiver.

## COMMUNICATING WITH THE BOARD

You may communicate with the Board, or directly with the Chairman of the Board, the Lead Director or the independent members of the Board by writing to:

c/o General Counsel
Tesoro Logistics GP, LLC
19100 Ridgewood Parkway
San Antonio, Texas 78259

The Audit Committee has established procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal controls or auditing matters and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. Persons wishing to communicate with our Audit Committee may do so by writing to:

c/o Chairman of the Audit Committee
Tesoro Logistics GP, LLC
19100 Ridgewood Parkway
San Antonio, Texas 78259

# ITEM 11. EXECUTIVE COMPENSATION

## COMPENSATION OF OUR DIRECTORS

The directors of our general partner who also serve as officers or employees of either our general partner or Tesoro do not receive additional compensation for their service as a director of our general partner. Directors of our general partner who are not officers or employees of either our general partner or Tesoro receive compensation as "non-employee directors."

Our general partner has adopted a director compensation program under which our general partner's non-employee directors are compensated for their service as directors. Each non-employee director receives a compensation package consisting of the annual retainer described below, an additional retainer for service as the chair of a standing committee of $15,000 and meeting attendance fees of $1,500 per meeting (for attendance in person or by telephone). During 2016, the annual retainer was $142,000 for Messrs. Bromark, Lamanna and O'Connor, payable $61,000 in cash and $81,000 in an award of service phantom units. For Messrs. Goldman and Wiley, who also serve as directors of Tesoro, the annual retainer was $87,000 payable in cash. In addition to the compensation described above, we reimburse our non-employee directors for travel and lodging expenses they incur in connection with attending meetings of the board of directors or its committees.

Service phantom units granted to non-employee directors under the annual compensation package, or upon first election to the board of directors, under our long-term incentive plan vest one year from the grant date. Cash distribution equivalent rights accrue with respect to such equity-based awards and are distributed at the time such awards vest. If the non-employee director's termination from the board is due to death or disability, his service phantom units will automatically vest along with any accrued cash distribution equivalent rights. If termination is due to any other reason, the non-employee director will receive a pro-rated award for the number of full months served during the vesting period along with any accrued cash distribution equivalent rights. The pro-rated award will vest one year from the grant date. The number of units granted is determined by dividing the equity portion of the annual retainer by the average closing price of our common units on the NYSE over a ten business-day period ending on the third business day prior to the grant date and rounding any resulting fractional units to the nearest whole unit. Service phantom units are granted annually to directors in conjunction with the Board's approval of our Annual Report on Form 10-K, and any new non-employee director receives a pro-rata award of service phantom units upon joining the board. Messrs. Bromark, Lamanna and O'Connor each received 2,009 phantom units in conjunction with the Board's approval of our Annual Report on Form 10-K in February 2016.

## 2016 DIRECTOR COMPENSATION TABLE

### COMPENSATION PAID TO NON-EMPLOYEE DIRECTORS IN 2016

| Name | Fees Earned or Paid in Cash (a) | Fair Value of Service Phantom Unit Awards (b) (c) | All Other Compensation | Total |
|---|---|---|---|---|
| Raymond J. Bromark | $ 127,000 | $ 86,407 | $ — | $ 213,407 |
| James H. Lamanna | 109,000 | 86,407 | — | 195,407 |
| Thomas C. O'Connor | 127,000 | 86,407 | — | 213,407 |
| Robert W. Goldman | 105,000 | — | — | 105,000 |
| Michael E. Wiley | 102,000 | — | — | 102,000 |

(a) The amounts shown in this column include the portion of the annual retainer earned in 2016, any individual retainers for serving as the chair of a committee earned in 2016 and the Board and committee meeting fees paid in 2016.
(b) The amounts shown in this column represent the aggregate grant date fair value of the directors' portion of the annual retainer paid in service phantom units computed in accordance with U.S. GAAP.
(c) The following table shows the total service phantom units outstanding as of December 31, 2016 for each non-employee director. No options or other equity-based awards have been granted to the non-employee directors.

| Name | Service Phantom Units Outstanding |
|---|---|
| Raymond J. Bromark | 2,009 |
| James H. Lamanna | 2,009 |
| Thomas C. O'Connor | 2,009 |
| Robert W. Goldman | — |
| Michael E. Wiley | — |

Compensation for our management directors is discussed below in Compensation Discussion and Analysis, the Summary Compensation Table and the other compensation tables included herein.

## COMPENSATION DISCUSSION AND ANALYSIS

We do not directly employ any of the persons responsible for managing our business. All of our general partner's executive officers and other personnel necessary for our business are employed and compensated by our general partner or Tesoro, in each case subject to the terms of our Amended Omnibus Agreement described below.

**NAMED EXECUTIVE OFFICERS.** This Compensation Discussion and Analysis ("CD&A") discusses the principles underlying our general partner's executive compensation programs and the key executive compensation decisions that were made for 2016. It also explains the most important factors relevant to those decisions. This CD&A provides context and background for the compensation for our named executive officers ("NEOs"), as reflected in the compensation tables that follow the CD&A. Our NEOs for 2016 were:

- Gregory J. Goff, Chief Executive Officer and Chairman of the Board;
- Steven M. Sterin, Executive Vice President, Chief Financial Officer and Director;
- Phillip M. Anderson, President and Director;
- Don J. Sorensen, Senior Vice President, Operations; and
- Kim K. W. Rucker, Executive Vice President and General Counsel.

**OVERVIEW - COMPENSATION DECISIONS AND ALLOCATION OF COMPENSATION EXPENSES.** Messrs. Goff and Sterin, and Ms. Rucker are also named executive officers of Tesoro. Therefore, responsibility and authority for compensation-related decisions is determined as follows:

- **Mr. Anderson** - Although he serves as a member of Tesoro's executive committee, Mr. Anderson's only officer role within Tesoro is as the President of our general partner and its subsidiaries. Decisions related to his compensation are made by our general partner's board of directors, but are based in large part on the recommendation of the compensation committee of Tesoro's board of directors. Because several of our general partner's directors are also officers of our general partner or Tesoro, our general partner's board of directors has delegated these compensation decisions to the Chairman of the Board and the independent directors.
- **Mr. Sorensen** - Mr. Sorensen is employed by our general partner and serves as an officer of our general partner and its subsidiaries. He also serves a broader role as Senior Vice President, Logistics of Tesoro Companies, Inc., Tesoro Refining & Marketing Company LLC and several other Tesoro subsidiaries. Because of this role as a Senior Vice President of Tesoro, decisions related to Mr. Sorensen's compensation are made by Tesoro's compensation committee. However, because Mr. Sorensen also serves as an executive officer of our general partner and our general partner pays a significant portion of his compensation, decisions related to his compensation must be approved by our general partner's board of directors (based in large part on the recommendation of the Tesoro's compensation committee). These compensation decisions are delegated to the Chairman of the Board and the independent directors.
- **Messrs. Goff and Sterin, and Ms. Rucker** - Decisions related to compensation of our general partner's executive officers that are employed by Tesoro are made by Tesoro's compensation committee. Any determination with respect to awards made under the Tesoro Logistics LP 2011 Long-Term Incentive Plan (as amended and restated, the "LTIP") to executive officers and other employees of Tesoro are delegated to the Chairman of the Board and the independent directors of our general partner; however, such awards may only be made following the recommendation of Tesoro's compensation committee. Any other compensation decisions for these individuals are not subject to any approvals by our general partner's board of directors or committees.

Messrs. Goff and Sterin, and Ms. Rucker generally devote less than a majority of their total business time to our general partner and us. Mr. Anderson is the only NEO whose time and compensation (other than certain long-term incentive grants made directly from Tesoro Corporation) is allocated 100% to our general partner. During 2016, Mr. Sorensen's time and compensation (other than certain long-term incentive grants made directly from Tesoro Corporation) was allocated approximately 90% to our general partner and 10% to Tesoro and its other affiliates.

Under the terms of the Amended Omnibus Agreement, we currently pay an annual administrative fee to Tesoro of $11 million for the provision of general and administrative services for our benefit. Additionally, we reimbursed Tesoro and its subsidiaries, including our general partner, for expenses incurred on our behalf, including 100% of Mr. Anderson's compensation expenses and 90% of Mr. Sorensen's compensation expenses (in each case, other than certain long-term incentive grants made directly from Tesoro), which is allocated to us pursuant to Tesoro's allocation methodology. The general and administrative services covered by the annual administrative fee of the Amended Omnibus Agreement include, without limitation, information technology services; legal services; health, safety and environmental services; human resources services; executive management services of Tesoro employees who devote less than 50% of their business time to the business and affairs of TLLP; financial and administrative services (including treasury and accounting); and insurance coverage under Tesoro insurance policies. None of the services covered by the administrative fee are assigned any particular value individually. Although certain NEOs provide services to both us and Tesoro, no portion of the administrative fee is specifically allocated to services provided by the NEOs to us; rather, the administrative fee covers services provided to us by Tesoro and, except as described above with respect to Messrs. Anderson and Sorensen, we do not reimburse for the cost of such services. Tesoro is ultimately responsible for the total compensation of Messrs. Goff, Sterin, and Ms. Rucker.

In addition to the matters discussed above, we compensated each of the NEOs for the services he or she provides us through awards of equity-based compensation under the LTIP. None of the cash compensation paid or other benefits provided to Messrs. Goff or Sterin or Ms. Rucker, was allocated to the services they provided to us and therefore, only the LTIP awards granted to them are disclosed herein. Information with respect to other compensation decisions for Messrs. Goff and Sterin and Ms. Rucker can be found in Tesoro's annual proxy statement.

**COMPENSATION PHILOSOPHY.** Compensation of our NEOs who are employed by our general partner is structured in a manner similar to how Tesoro compensates its executive officers. The following discussion reflects such executive compensation philosophy and pay practices as they relate to how officers who are employed by our general partner are compensated. The elements of compensation discussed below, and any decisions with respect to future changes to the levels of such compensation, are subject to the discretion of Tesoro's compensation committee, or, with respect to executive officers employed by our general partner, our general partner's Chairman of the Board and independent directors. References to our compensation philosophy and program refer to the compensation philosophy of our general partner or Tesoro, as applicable.

Our compensation philosophy is to offer competitive compensation and benefit programs that will attract and retain the talented executives and employees who are critical to executing our strategic priorities and exemplifying our core values.

Our executive compensation programs are comprised of a mix of fixed and variable cash and equity-based pay with a significant portion of actual total compensation dependent on meeting financial and operational objectives.

Our executive compensation programs are designed around the following concepts:

- rewarding leaders for delivery of outstanding business results and driving a performance-oriented culture;
- promoting and sustaining exceptional performance over time to generate long-term growth in unitholder value; and
- leading by our guiding principles, which are core values, exceptional people, shared purpose, powerful collaboration and superior execution.

Our approach allows us to reward our executives for delivering value to unitholders while reducing or eliminating overall compensation levels if we do not achieve our goals or consistently underperform our peers.

**COMPENSATION CONSULTANTS.** Our general partner does not have a compensation committee, and its Board of Directors has not hired its own compensation consultant. BDO USA, LLP was engaged to provide compensation consulting services and market data to Tesoro's and our general partner's compensation department and executive management, which the Board may use from time to time to make compensation decisions.

**COMPARATIVE ANALYSIS.** In October 2015, a market study was presented to the Chairman of the Board and independent directors of our general partner in contemplation of 2016 compensation decisions. A similar market study was presented to the Chairman of the Board and independent directors of our general partner in October 2016 in contemplation of 2017 compensation decisions. The compensation peer group used for general pay comparison purposes was initially developed near the time of our April 2011 initial public offering. Chairman of the Board and independent directors review the peer group annually and consider changes based on acquisitions, consolidations and spin-offs.

Our compensation peer group used for 2016 compensation decisions is shown below. The group includes 17 master limited partnerships ("MLPs") with a median market capitalization (as of September 2015) of approximately $4.06 billion and ranging from approximately $0.96 billion to approximately $17.51 billion. Our market capitalization as of such date was approximately $3.94 billion. Because the number of MLPs in the energy industry is relatively small, only a portion of the peer companies are involved in the liquid petroleum products business and only a portion of them are sponsored MLPs (as opposed to stand-alone MLPs) with a parent company like Tesoro. Peer data is supplemented with total compensation information extracted from a general industry survey. For purposes of the performance phantom units granted in February 2016, we used a separate performance peer group, as discussed in more detail below under "Long-Term Incentives."

- Buckeye Partners, L.P.
- DCP Midstream Partners, LP
- EnLink Midstream Partners LP
- Genesis Energy, L.P.
- Holly Energy Partners, L.P.
- MarkWest Energy Partners, L.P.
- MPLX, L.P.
- NuStar Energy L.P.
- Phillips 66 Partners, L.P.
- Shell Midstream Partners, L.P.
- Spectra Energy Partners, LP
- Summit Midstream Partners, L.P.
- Sunoco Logistics Partners L.P.
- Targa Resources Partners LP
- Valero Energy Partners, L.P.
- Western Gas Partners, LP
- Western Refining, Logistics, L.P.

**ELEMENTS OF EXECUTIVE COMPENSATION** Our executive compensation programs have been designed to create a pay for performance culture. Our executive compensation programs are comprised of a mix of fixed and variable cash and equity-based pay with a significant portion of actual total compensation dependent on meeting financial and operational objectives. Our executive officers receive their maximum reward opportunity only if we perform exceptionally well, and our unitholders benefit from that performance.

| Compensation Element | Objective | Key Features | Performance-Based / At Risk? |
|---|---|---|---|
| **Base Salary** | Reflects executive responsibilities, job characteristics, seniority, experience and skill set; designed to be competitive with those of comparable companies with which we compete for talent | Reviewed annually and subject to adjustment based on market factors, individual performance, experience and leadership | NO |
| **Annual Cash Incentive** | Rewards executives' contributions to the achievement of predetermined Tesoro, business unit and individual goals | Establishes performance measures to best align performance relative to meeting financial and safety goals ultimately driving unitholder value | YES - Pays out only based on achievement of established measurable goals; does not pay out if established threshold goals are not achieved |
| **Performance Phantom Units (Long-Term Equity Awards)** | Correlates executives' pay with increases in unitholder value over a three-year period | In periods of low relative unitholder return, executives realize little or no value. In periods of high relative unitholder return, executives may realize substantial value | YES - Pays out only based on increased relative unitholder value; may not vest depending upon unitholder return |

We review each executive's total compensation for alignment with our compensation peer group and our compensation philosophy. However, we do not determine the appropriate level for each component of total compensation based exclusively on comparative analysis against our compensation peer group. We consider other factors, which may include internal pay equity and consistency and the executive's job responsibilities, management experience, individual contributions, number of years in his or her position and recent compensation adjustments, as well as other relevant considerations (with no particular weighting assigned to any of these factors).

Our emphasis on variable, or at risk, components of incentive pay results in actual compensation ranging above or below targeted amounts based on achievement of the objectives established in our annual and long-term incentive plans and changes in the value of our units. While we assess each compensation component separately, the aggregate total direct compensation is considered in the context of the overall pay determination. Our strategy also includes ongoing evaluation and adaptation, as necessary, of our compensation programs to ensure continued alignment between company performance and pay.

**BASE SALARIES.** Base salaries for our NEOs employed by our general partner are structured in accordance with Tesoro's overall compensation program and pay practices and are reviewed annually by our general partner's Chairman of the Board and independent directors. As part of the Chairman and independent directors' annual review of compensation in February 2016, Mr. Anderson's salary was increased from $363,000 to $380,000 to reflect the additional experience that he had developed in his current role and to bring his base salary to a more competitive level based on the market study data. Mr. Sorensen's salary was increased from $380,000 to $410,000 to bring his base salary to a more competitive level based on the market study data.

**ANNUAL PERFORMANCE INCENTIVES.** Tesoro and our general partner believe that annual cash-based incentives drive achievement of annual performance goals and objectives, which create additional unitholder value. In February 2016, Tesoro's compensation committee approved the terms of the 2016 Incentive Compensation Program (the "ICP") for Tesoro's NEOs and other employees. Due to the relationship between us, our general partner and Tesoro, each of Messrs. Anderson and Sorensen was eligible to participate in Tesoro's ICP. However, their continued participation and level of participation is subject to the approval of our general partner's Chairman of the Board and independent directors.

Tesoro's ICP structure uses a mix of objectives designed to focus management on key areas of performance and allows for cascading corporate goals down the Tesoro organization from corporate through business units to individuals (such as Messrs. Anderson and Sorensen). Tesoro's ICP provides all employees under the program with the same upward and downward bonus opportunity (0% below threshold; 50% at threshold; 100% at target; 200% at maximum). The calculation of total 2016 ICP bonus payout to an employee is determined as follows, with each element described further below:

| Total ICP Bonus Payout | = | [ | Bonus Eligible Earnings | x | Target Bonus % | x | % Overall Performance Achieved* | ] | +/- | Individual Performance Adjustment |
|---|---|---|---|---|---|---|---|---|---|---|

*** Weighted average blended rate composed of corporate performance rate and business unit rate, as explained in further detail below.**

**Bonus Eligible Earnings** is based on salary earned during the 2016 calendar year.

**Target Bonus Opportunities (%)** for Messrs. Anderson and Sorensen were set as a percentage of salary consistent with similar positions within Tesoro's organization as follows: Mr. Anderson - 75%, and Mr. Sorensen - 65%. These amounts reflect an increase from 2015 in the target bonus amounts for Mr. Anderson (70% in 2015) and Mr. Sorensen (60% in 2015) to maintain relative market competitiveness.

**PERFORMANCE OBJECTIVES FOR DETERMINING OVERALL PERFORMANCE ACHIEVED (%).** Tesoro's ICP structure uses a mix of objectives designed to focus management on key areas of performance. 2016 ICP payouts were determined by measuring performance against pre-established performance levels for two equally weighted components: (i) Tesoro's corporate performance and (ii) the executive's business unit performance. Tesoro's compensation committee may adjust performance results and the individual business units' results to take into account unplanned or unanticipated business decisions or events that are outside of management's control, unusual or non-recurring items, and other factors, to determine the total amount, if any, payable under the 2016 ICP.

**COMPONENT 1 - TESORO'S CORPORATE PERFORMANCE.** The first component of the ICP is Tesoro's corporate performance, including EBITDA, cost management, business improvement, and safety and environmental measures (ranked in order of weighting).

- EBITDA was the most heavily weighted metric and is measured on a margin neutral basis, rather than a reported basis, by excluding fluctuations in commodity prices (and thereby fluctuations in margins) over which management has little influence. Similarly, adjustments were made for the 2016 ICP to exclude the impact of inventory valuation adjustments related to changes in commodity prices. Targets for this component are based on Tesoro's annual business plan.
- Controllable cost management and business improvement are tied as the second most heavily weighted metric of the Tesoro corporate component. Controllable cost management targets are based on Tesoro's business plan. This metric is measured as total cash costs excluding annual incentive compensation program, stock-based compensation expense, non-controllable expenses for post-retirement employee benefits (pension, medical, life insurance) and insurance (property, casualty and liability), spill prevention costs and environmental accruals and benefits. It includes allocations of refining maintenance and labor to capital projects. Refining energy variable costs and internally produced fuel consumption are market adjusted to budget-assumed prices.

- Business improvement includes capital improvement initiatives ("CII"), margin improvement initiatives, synergies related to asset acquisitions and similar projects and initiatives.
- Personal safety, process safety and environmental safety are critical to Tesoro's success and reflect its ability to operate its assets in a safe and reliable manner. Because Tesoro believes in continuous improvement, each of the safety metrics is measured by improvement compared to the average incident rate for the prior three year period.

| Corporate Goals | Weighting (%) | % Achieved |
|---|---|---|
| Margin-neutral EBITDA of $3.122 billion | 50 | 92% |
| Management of costs to no more than $3.254 billion | 17.5 | 92% |
| Business improvements (including CII, synergy and other projects and initiatives) of $252 million | 17.5 | 200% |
| Personal Safety improvement | 5 | 200% |
| Process Safety Management improvement | 5 | 200% |
| Environmental improvement | 5 | 200% |
| Overall Tesoro Corporate Performance Achieved | | 127% |

The corporate performance component of the ICP also determines the overall funding of the program for all of Tesoro's employees (including employees of our general partner). While individual business unit results vary, the total payout for all Tesoro business units is equal to the 127% funded value reflecting Tesoro corporate performance.

**COMPONENT 2 - BUSINESS UNIT RESULTS.** The second ICP component was more specifically tailored to the performance of each individual's business unit. Tesoro's business unit goals are directly aligned with corporate objectives and are measured using common criteria to promote consistency throughout the Tesoro organization. Business unit criteria include safety and environmental, cost management, improvements in EBITDA and business improvement and value creation initiatives. Like the overall structure of the ICP, the business unit targets were set at stretch levels that were challenging, and would generate significant value for our unitholders. For Mr. Anderson, this component was tied to the performance of TLLP. Mr. Sorensen's business unit results were tied to the performance of Tesoro logistical assets (including TLLP, as well as logistical assets for which TLLP may have a right of first offer or which Tesoro has indicated it may offer to TLLP for purchase in the future). The TLLP 2016 performance metrics and results applicable to the ICP are summarized below. We have not disclosed business unit targets for the performance of Tesoro's other logistical assets (which are applicable to a portion of Mr. Sorensen's ICP) because such disclosure would cause competitive harm to Tesoro and to us.

| TLLP Goals | Weighting (%) | Result / Performance |
|---|---|---|
| EBITDA of $796 million for 2016 base business | 15 | $720 million (below target) |
| Various Business Improvement Objectives (including improvement in EBITDA through Optimization and Organic Initiatives of $115 million) | 60 | $70 million (below target) |
| OSHA combined recordable rate of 0 | 10 | 1 recordable injury (below target) |
| Management of costs to no more than $7.66 million | 15 | $6.26 (above target) |
| Overall TLLP Performance Achieved | | 110% |

**INDIVIDUAL PERFORMANCE ADJUSTMENTS.** The Chairman of the Board and independent directors of our general partner have the discretion to adjust the awards to Messrs. Anderson and Sorensen based on their assessment of each executive's performance relative to successful achievement of goals, business plan execution, and other leadership attributes. Adjustments are applied as a percentage of an individual target bonus opportunity. In recognition of Mr. Anderson's role in driving continued growth of TLLP through business development activities, the Chairman and independent directors of our general partner recommended a 10% upward adjustment to Mr. Anderson's ICP award.

**OVERALL PERFORMANCE AND PAYOUTS.** The following table shows the specific bonus targets, level of achievement (including the adjustments described above), individual performance adjustment and annual bonus payment for Messrs. Anderson and Sorensen:

| Name | Bonus Eligible Earnings | Target Bonus | Overall Performance Achieved | Calculated Bonus Payout | Individual Performance Adjustments (Increase/ Decrease) | Total Bonus Payout |
|---|---|---|---|---|---|---|
| Phillip M. Anderson | $ 378,038 | 75% | 110% | $ 311,882 | 10% | $ 340,235 |
| Don J. Sorensen | $ 406,538 | 65% | 125% | $ 330,312 | — | $ 330,312 |

**GRANT OF LONG-TERM INCENTIVES.** We believe that our senior leaders, including our NEOs, should have an ongoing stake in our success and their interests should be aligned with those of our unitholders. Accordingly, we believe that these leaders should have a considerable portion of their total compensation provided in the form of equity-based incentives.

Our general partner has adopted the LTIP primarily for the benefit of eligible officers, employees and directors of our general partner and its affiliates, including Tesoro, who perform services for us. Awards are generally made on an annual basis to reward service or performance by our general partner's outside directors, executive officers and key employees. Awards under the LTIP for individuals that are employed by Tesoro must first be recommended by Tesoro's compensation committee.

Following a recommendation by Tesoro's compensation committee, in the first quarter of 2016, the Chairman and independent directors of our general partner granted awards under the LTIP to our NEOs. Each of our NEOs received a grant of performance phantom units that will vest based on the achievement of relative total unitholder return over a performance period from January 1, 2016 through December 31, 2018, as compared to a performance peer group of companies. The peer companies currently include Boardwalk Pipeline Partners, LP; Buckeye Partners, L.P.; DCP Midstream Partners, LP; Enbridge Energy Partners, L.P.; EnLink Midstream Partners, LP; EQT Midstream Partners LP; Genesis Energy L.P.; Holly Energy Partners L.P.; Magellan Midstream Partners L.P.; MPLX L.P.; NuStar Energy L.P.; Sunoco Logistics Partners L.P.; Targa Resources Partners LP; ONEOK Partners, L.P.; and Western Gas Partners, LP. These companies were selected based on our view that key stakeholders compare our business results and relative performance with these companies. The payout will range from none of the units vesting to vesting of 200% of the units as shown below.

| Relative Total Unitholder Return | Payout as a % of Target |
|---|---|
| 90th percentile and above | 200% |
| 75th percentile | 150% |
| 50th percentile | 100% |
| 30th percentile | 50% |
| Below 30th percentile | — |

The number of units granted was based on Tesoro's compensation structure in which executive officers and key employees receive a target value of long-term incentive awards. For Messrs. Anderson and Sorensen, this value was awarded 50% in our performance phantom units and 50% in Tesoro performance equity awards. The compensation expense for the Tesoro performance equity awards granted to Messrs. Anderson and Sorensen is not allocated to us. For Messrs. Goff and Sterin, and Ms. Rucker, 25% of their 2016 long-term incentive value was recommended by Tesoro's compensation committee and awarded by our general partner's Board. The Tesoro compensation committee and our general partner believe that these allocations are appropriate given each executive's responsibilities. The performance phantom units granted to our NEOs in 2016 received tandem distribution equivalent rights to receive an amount equal to all or a portion of the cash distributions made on units during the period such phantom units remain outstanding.

**PAYOUT OF LONG-TERM INCENTIVES.** The performance phantom units granted to executives in February 2014 represented the right to receive common units at the end of the January 1, 2014 through December 31, 2016 performance period depending upon TLLP's achievement of relative total unitholder return against a defined performance peer group. TLLP's total unitholder return of 5.43% ranked in the 33rd percentile, which resulted in a payout of 58.33% of the target amount in January 2017. These payouts are reported in "Executive Compensation - Compensation Tables and Narratives - Option Exercises and Stock Vested in 2016."

**EXECUTIVE BENEFITS.** In order to promote consistency with Tesoro's overall competitive practices and our compensation philosophy and to adopt a best practice compensation design, our executive officers are generally not entitled to any perquisites.

However, in order to remain competitive and attract quality executives, we continue to allow executives to participate in our relocation program, which is generally available to all management. Our executive officers do not receive a tax gross-up associated with any relocation benefits. This program also includes a recoupment provision in the event employment is terminated within a one-year period.

We provide health and welfare benefits to employees, including the NEOs. Tesoro also maintains non-contributory qualified and non-qualified retirement plans that cover officers and other eligible employees of Tesoro. Our NEOs and other eligible employees of our general partner, as well as employees of Tesoro who provide services to us, are eligible to participate in Tesoro's retirement plans in accordance with their terms.

**MANAGEMENT STABILITY AGREEMENTS AND OTHER SEVERANCE BENEFITS.** Prior to August 2016, Tesoro had management stability agreements with Messrs. Anderson and Sorensen in order to ensure continued stability, continuity and productivity among members of its management team. On August 2, 2016, Tesoro Corporation and Mr. Sorensen entered into a Waiver and Release (the "Waiver") to the Amended & Restated Management Stability Agreement originally executed on December 31, 2008. Under the terms of the Waiver, Mr. Sorensen waived and released any and all rights and benefits under the management stability agreement and the parties formally terminated the management stability agreement. In light of the termination of the management stability agreement, Mr. Sorensen now participates in Tesoro's Executive Severance and Change-in-Control Plan.

These arrangements contain change-in-control provisions, as described in more detail below, which Tesoro provides to help it to attract and retain talented individuals for these important positions. In addition, each of these named executive officers participates in the severance policy maintained for Tesoro's employees, as described in more detail below. We will be required to reimburse Tesoro for any amounts provided to Messrs. Anderson and Sorensen under their arrangements in proportion to the percentage of their total compensation allocated to us. The potential payouts associated with termination events are reported in the "2016 Potential Payments Upon Termination or Change in Control".

**ADDITIONAL COMPENSATION COMPONENTS.** In the future, as Tesoro and our general partner formulate and implement the compensation programs for our named executive officers, Tesoro and our general partner may provide different and/or additional compensation components, benefits and/or perquisites to our named executive officers, to ensure that they are provided with a balanced, comprehensive and competitive compensation structure. Tesoro and our general partner believe that it is important to maintain flexibility to adapt compensation structures at this time to properly attract, motivate and retain the top executive talent for which Tesoro and our general partner compete.

**EQUITY GRANT/TRADING POLICIES.** Our general partner has not formally adopted an equity award governance policy, but generally follows the policy adopted by Tesoro's compensation committee under which all long-term equity incentives are granted. The policy prohibits the issuance of unit options or unit appreciation awards at a price less than the closing sale price of our common units on the date of grant. Tesoro generally grants equity awards in late January or early February of each year. Tesoro and our general partner have chosen this time because it is a time each calendar year at which our results of operations from the previous year are available to the compensation committee of Tesoro and the Chairman and independent directors of our general partner's Board. Tesoro and our general partner do not purposely accelerate or delay the public release of material information or otherwise time equity grants in coordination with the public release of material information, in consideration of a pending equity grant in order to allow the grantee to benefit from a more favorable stock price.

We also maintain a policy on trading in company securities which prohibits, among other things, any employees and directors from entering into transactions when in possession of material non-public information or from participating in short-term trading or hedging activities involving our securities. The policy requires directors, senior executives and informational insiders to follow preclearance procedures for all transactions involving our securities. It also prohibits them from trading in derivative securities (other than equity-settled awards granted under our plans) or holding our securities in a margin account or otherwise pledging them as collateral for a loan.

**CLAWBACK POLICY.** In January 2012, the Board of our general partner adopted a compensation recoupment, or clawback, policy that provides that in the event of a material restatement of TLLP's financial results due to misconduct, our general partner's independent directors will review all annual incentive payments and long-term incentive compensation awards that were made to any individual then serving as a vice president or above of our general partner or as a company controller or other officer of our general partner with substantial responsibility for accounting matters (including the vice presidents and above, each an "officer") on the basis of having met or exceeded specific performance targets in grants or awards made after January 19, 2012, which occur during the 24-month period prior to restatement. If such compensation would have been lower had it been calculated based on such restated results, the independent directors will, to the extent permitted by governing law, seek to recoup for our benefit such compensation to any of the officers described above whose misconduct caused or significantly contributed to the material restatement, as determined by the independent directors. Notwithstanding the foregoing, with respect to any officer who serves as an executive officer of Tesoro Corporation, thereby requiring that such officer's awards under the LTIP be granted only following a recommendation made by the board of directors or compensation committee of Tesoro, the independent directors will only seek such recoupment of benefits after consultation with the board of directors or compensation committee of Tesoro.

## COMPENSATION COMMITTEE REPORT

The Chairman of the Board and independent directors of our general partner (the "Committee") have reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

The undersigned members of the Committee have submitted this Report to the Board of Directors as of February 21, 2017.

Gregory J. Goff
Raymond J. Bromark
James H. Lamanna
Thomas C. O'Connor

## 2016 SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (a) | Unit Awards (b) | Non-Equity Incentive Plan Compensation (c) | Change in Pension Value and Non-qualified Compensation Earnings (d) | All Other Compensation (e) | Total |
|---|---|---|---|---|---|---|---|
| **Gregory J. Goff** | 2016 | $ (f) | $ 2,129,175 | $ (f) | $ (f) | $ (f) | $ 2,129,175 |
| Chairman and Chief Executive Officer | 2015 | (f) | 2,345,798 | (f) | (f) | (f) | 2,345,798 |
| | 2014 | (f) | 1,917,842 | (f) | (f) | (f) | 1,917,842 |
| **Phillip M. Anderson** | 2016 | 378,365 | 202,820 | 340,235 | 250,421 | 11,341 | 1,183,182 |
| President | 2015 | 361,700 | 211,123 | 380,586 | 196,615 | 26,247 | 1,176,271 |
| | 2014 | 349,102 | 213,154 | 462,103 | 361,397 | 19,074 | 1,404,830 |
| **Don J. Sorensen** | 2016 | 366,404 | 243,345 | 297,281 | 269,017 | 387,525 | 1,563,572 |
| Senior Vice President, Operations | 2015 | 342,000 | 234,633 | 318,745 | 153,939 | 281,277 | 1,330,594 |
| **Steven M. Sterin** | 2016 | (f) | 431,919 | (f) | (f) | (f) | 431,919 |
| Vice President and Chief Financial Officer | 2015 | (f) | 410,558 | (f) | (f) | (f) | 410,558 |
| | 2014 | (f) | — | (f) | (f) | (f) | — |
| **Kim K.W. Rucker** Vice President and General Counsel | 2016 | (f) | 324,444 | (f) | (f) | (f) | 324,444 |

(a) The amounts shown in this column reflect the base salary expense that was allocated to us by Tesoro. For Mr. Anderson, this includes 100% of his base salary expense from the date of our initial public offering in April 2011 through December 31, 2016. For Mr. Sorensen, this includes 90% of his base salary expense from January 1, 2015 through December 31, 2016.

(b) The amounts shown in this column for 2016 reflect the aggregate grant date fair value of performance phantom units granted during the fiscal year, calculated in accordance with U.S. Generally Accepted Accounting Principles. The aggregate grant date fair value of such performance phantom units at the highest level of performance, resulting in 200% payout, would be as follows: Mr. Goff - $4,258,350; Mr. Anderson - $405,640; Mr. Sorensen - $486,691; Mr. Sterin - $863,837; and Ms. Rucker - $648,889. For Messrs. Goff and Sterin, and Ms. Rucker, this amount represents 25% of their 2016 long-term incentive values as recommended by the Tesoro compensation committee and awarded by the Board of our general partner. For Mr. Goff, this amount was increased from 20% of his total long-term incentive compensation in 2014. This column does not include grants of performance share awards or market stock units to the executive officers by Tesoro, which are not allocated to us.

(c) The amounts shown in this column reflect the compensation expense allocated to us by Tesoro with respect to awards under Tesoro's ICP. The Partnership's portion of such expense is 100% for Mr. Anderson. For 2016, the Partnership's portion of such expense is 90% for Mr. Sorensen.

(d) The amount shown in this column reflects the change in pension value during the fiscal year. The amount shown in the column for Mr. Anderson is 100%. The amount shown in the column for Mr. Sorensen in 2016 is 90%.

(e) The amounts shown in this column for 2016 is 100% for Mr. Anderson and 90% for Mr. Sorensen and reflect the following:

(1) Tesoro Thrift Plan Contributions: Tesoro provides matching contributions dollar-for-dollar up to 6% of eligible earnings for all employees who participate in the Tesoro Thrift Plan. The matching contributions for 2016 were $11,341 for Mr. Anderson and $14,310 for Sorensen. In addition, Tesoro provides a profit-sharing contribution to the Thrift Plan. This discretionary contribution, calculated as a percentage of employee's base pay based on a pre-determined target for the calendar year, can range from 0% to 4% based on actual performance.

(2) Tesoro Executive Deferred Compensation Contributions: Tesoro will match the participant's base salary contributions dollar-for-dollar up to 4% eligible earnings above the IRS salary limitation (i.e., $265,000 for 2016). The matching contribution for 2016 was $18,734 for Mr. Sorensen.

(3) Tesoro Relocation Benefits: Tesoro provided benefits in 2016 under its relocation program for Mr. Sorensen in connection with his promotion in the amount of $354,481.

(f) As noted above, no compensation has been reported for Mr. Goff, Mr. Sterin, and Ms. Rucker because, other than grants of performance phantom units, none of their compensation is allocated to us. The $11 million annual administrative fee under the Amended Omnibus Agreement covers a variety of services provided to TLLP by Tesoro and no portion is specifically allocated to services provided by these individuals to TLLP.

## GRANTS OF PLAN-BASED AWARDS IN 2016

| | | | Estimated Future Payouts Under Non-Equity Incentive Plan Awards (a) | | | Estimated Future Payouts Under Equity Incentive Plan Awards (b) | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Name** | **Award Type** | **Grant Date** | **Threshold** | **Target** | **Maximum** | **Threshold** | **Target** | **Maximum** | **Grant date fair value of unit awards (c)** |
| **Gregory J. Goff** | Phantom Units | 2/9/2016 | $ — | $ — | $ — | $ 22,119 | $ 44,238 | $ 88,476 | $ 2,219,175 |
| **Phillip M. Anderson** | Annual Incentive | N/A | 141,764 | 283,529 | 567,058 | — | — | — | — |
| | Phantom Units | 2/9/2016 | — | — | — | 2,107 | 4,214 | 8,428 | 202,820 |
| **Don J. Sorensen** | Annual Incentive | N/A | 118,913 | 237,825 | 475,650 | — | — | — | — |
| | Phantom Units | 2/9/2016 | — | — | — | 2,528 | 5,056 | 10,112 | 243,345 |
| **Steven M. Sterin** | Phantom Units | 2/9/2016 | — | — | — | 4,487 | 8,974 | 17,948 | 431,919 |
| **Kim K.W. Rucker** | Phantom Units | 3/14/2016 | — | — | — | 3,371 | 6,741 | 13,482 | 324,444 |

(a) These columns show the range of awards under the ICP for which we would be allocated responsibility, which is described in the section "Annual Performance Incentives" in the Compensation Discussion and Analysis. The "threshold" column represents the minimum payout for the performance metrics under the ICP assuming that the minimum level of performance is attained. The "target" column represents the amount payable if the performance metrics are reached. The "maximum" column represents the maximum payout for the performance metrics under the ICP assuming that the maximum level of performance is attained. The general partnership's portion of Tesoro's 2016 ICP reflected is 100% for Mr. Anderson and 90% for Mr. Sorensen. We are not responsible for any portion of the other NEOs' 2016 ICP.

(b) The amounts shown in these columns represent the number of performance phantom units granted during 2016 under the LTIP as described in the section "Long-Term Incentives" in the CD&A. This performance phantom unit award is contingent on our achievement of relative total unitholder return at the end of the performance period from January 1, 2016 through December 31, 2018. Actual payouts will vary based on relative total unitholder return from none of the units vesting to a threshold vesting of 50% of the units up to a maximum vesting of 200% of the units.

(c) The amounts shown in this column represent the grant date fair value of the awards computed in accordance with financial accounting standards.

## OUTSTANDING EQUITY AWARDS AT 2016 FISCAL YEAR END

There have been no issuances of options to purchase our units.

| | Equity Awards | | | | |
|---|---|---|---|---|---|
| Name | Grant Date | Number of Units That Have Not Vested | Market Value of Units That Have Not Vested | Equity Incentive Plan Awards: Number of Unearned Units, Units or Other Rights That Have Not Vested (a) (b) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Units, Units or Other Rights That Have Not Vested (a) (b) |
| Gregory J. Goff | 2/9/2016 | — | $ — | 44,238 | $ 2,359,522 |
| | 2/12/2015 | — | — | 35,122 | 1,976,824 |
| Phillip M. Anderson | 2/9/2016 | — | — | 4,214 | 224,762 |
| | 2/12/2015 | — | — | 3,161 | 177,915 |
| Don J. Sorensen | 2/9/2016 | — | — | 5,056 | 269,672 |
| | 2/12/2015 | — | — | 3,513 | 197,727 |
| Steven M. Sterin | 2/9/2016 | — | — | 8,974 | 478,646 |
| | 2/12/2015 | — | — | 6,147 | 345,981 |
| Kim K.W. Rucker | 3/14/2016 | — | — | 6,741 | 359,545 |

(a) These awards represent performance phantom units, which provide the right to receive a number of common units at the end of the performance period depending upon our achievement of relative total unitholder return against a defined performance peer group. The closing price of our common units on December 30, 2016 of $50.81, as reported on the NYSE, was used to calculate the market value of the unvested unit awards.

(b) These awards represent TLLP performance phantom units, which are the right to receive a number of common units at the end of the performance period depending on our achievement of relative total unitholder return against a defined performance peer group. Each award will vest at the end of the relevant performance period, subject to performance. For each award, the number of unvested units and the payout values shown assume a payout at target; for all such awards, the payout value also includes any outstanding distribution equivalent rights that will be paid to the executive once both the award has vested and the payout results have been certified by the TLGP Board of Directors. The performance period for each award, as well as the amount of outstanding distribution equivalent rights included in the payout value is shown for each of the executives below:

| | Dividend Equivalent Rights Accrued as of 12/31/2016 ($) | |
|---|---|---|
| Name | TLLP Performance Phantom Units Granted February 2016 for all NEOs other than Ms. Rucker (Granted March 2016) (Performance Period of 1/1/2016-12/31/2018) | TLLP Performance Phantom Units Granted February 2015 (Performance Period of 1/1/2015-12/31/2017) |
| Gregory J. Goff | 111,789 | 192,275 |
| Philip M. Anderson | 10,649 | 17,305 |
| Don J. Sorensen | 12,777 | 19,232 |
| Steven M. Sterin | 22,677 | 33,652 |
| Kim K.W. Rucker | 17,035 | — |

## OPTION EXERCISES AND STOCK VESTED IN 2016

We have not granted any options to purchase our units.

| | Unit Awards | |
|---|---|---|
| Name | Number of Units Acquired on Vesting (a) | Value Realized on Vesting (b) |
| Gregory J. Goff | 16,459 | $ 1,025,552 |
| Philip M. Anderson | 1,830 | 114,026 |
| Don J. Sorensen | — | — |
| Steven M. Sterin | — | — |
| Kim K.W. Rucker | — | — |

(a) Reflects the vesting of the payout of the performance phantom units that were granted in 2014 for Messrs. Goff and Anderson.
(b) The value realized on the payout of the performance phantom units was calculated based on the number of units granted multiplied by the performance payout factor approved by our general partner's Board of Directors on January 17, 2017 and then multiplied by the closing price of the common units on that date. Of the amounts realized for the performance phantom units payout, the amounts paid in distribution equivalent rights to the NEOs were: Mr. Goff - $131,499; and Mr. Anderson - $14,621.

## PENSION BENEFITS IN 2016

The estimated pension benefits provided under the Tesoro Corporation Retirement Plan (the "Retirement Plan") and the Restoration Retirement Plan for our NEOs are set forth below.

| Name | Plan Name | Years of Credited Service (a) | Present Value of Accumulated Benefit (b) | Payments During Last Fiscal Year |
|---|---|---|---|---|
| Gregory J. Goff | — (c) | — (c) | $ — (c) | — (c) |
| Philip M. Anderson | Tesoro Corporation Retirement Plan | 12 | 568,905 | — |
| | Restoration Retirement Plan | 12 | 1,057,640 | — |
| Don J. Sorensen | Tesoro Corporation Retirement Plan | 22 | 850,118 | — |
| | Restoration Retirement Plan | 22 | 608,891 | — |
| Steven M. Sterin | — (c) | — (c) | — (c) | — (c) |
| Kim K.W. Rucker | — (c) | — (c) | — (c) | — (c) |

(a) Due to a freeze of credited service as of December 31, 2010, credited service values for the Tesoro Corporation Retirement Plan are less than actual service values. Credited service is used to calculate the Final Average Pay portion of the Retirement Plan benefit. The Cash Balance portion of the retirement benefit that went into effect on January 1, 2011 does not utilize credited service.
(b) The present values of the accumulated plan benefits are equal to the value of the retirement benefits at the earliest unreduced age for each plan using the assumptions as of December 31, 2016 for financial reporting purposes. These assumptions include a discount rate of 4.12%, a cash balance interest crediting rate of 3.12%, the use of the RP-2016 Mortality Table with generational mortality improvements in accordance with Scale MP-2016 and for the Tesoro Corporation Retirement Plan, that each employee will elect a lump sum payment at retirement using an interest rate of 4.12% and the PPA 2017 Mortality Table. The Partnership reimburses Tesoro for the pension expense that is allocated to us for employees of our general partner. During 2016, the portion of each NEO's pension expense was allocated to us based on their service to us as follows: 100% for Mr. Anderson and 90% for Mr. Sorensen. However, the amounts reflected in the above table represent the full present value of the accumulated benefit for Mr. Sorensen.
(c) No portion of the compensation expense for retirement benefits to Mr. Goff, Mr. Sterin, and Ms. Rucker is allocated to us. The $11 million annual administrative fee under the Amended Omnibus Agreement covers a variety of services provided to TLLP by Tesoro, and no portion is specifically allocated to services provided by these individuals to TLLP.

## DESCRIPTION OF RETIREMENT OR PENSION PLANS IN WHICH OUR NEOs PARTICIPATE

| Tesoro Corporation Retirement Plan (the "Retirement Plan") | |
|---|---|
| **Short Description** | A tax-qualified pension plan with a monthly retirement benefit made up of two components:<br>- a Final Average Pay (FAP) benefit for service through December 31, 2010, and<br>- a Cash Balance account based benefit for service after December 31, 2010<br>The final benefit payable under the Retirement Plan is equal to the value of the sum of both the FAP and the Cash Balance components on the participant's benefit commencement date. |
| **FAP Benefit (through 12/31/2010)** | - 1.1% of final average compensation for each year of service through December 31, 2010, plus 0.5% of average compensation in excess of the Social Security Covered Compensation limit for each year of service through December 31, 2010, up to 35 years.<br><br>- Final average compensation is the monthly average of compensation (including base pay plus bonus but limited to the maximum compensation and benefit limits allowable for qualified plans under the Internal Revenue Code) over the consecutive 36-month period in the last 120 months preceding retirement that produces the highest average. |
| **Cash Balance Benefit (after 12/31/2010)** | For service after 2010, participants earn pay and interest credits:<br><br>- Pay credits are determined based on a percentage of eligible pay at the end of each quarter ranging from 4.5% to 8.5% of pay based on a participant's age at the end of each quarter.<br><br>- Interest is credited quarterly on account balances based on a minimum of 3%, the 10-Year Treasury Bonds or the 30-Year Treasury Bonds, whichever is higher. |
| **Timing of Benefit Payments** | Generally payable the first day of the month following the attainment of age 65 and the completion of at least 3 years of service<br><br>Early Retirement:<br><br>- If a participant qualifies for early retirement (age 50 with service plus age greater than or equal to 80, which is referred to as "80-point early retirement," or age 55 with 5 years of service, which is referred to as "regular early retirement"), the FAP benefit component will be reduced by a subsidized early retirement factor prior to age 65. Under the 80-point early retirement definition, the FAP benefit component may be paid at age 60 without reduction or earlier than age 60 with a reduction of 5% per year for each year the age at retirement is less than 60. Under the regular early retirement definition, the FAP benefit component may be paid at age 62 without reduction or earlier than age 62 with a reduction of approximately 7.14% per year for each year prior to age 62. If an employee does not qualify for early retirement upon separation from service, they will be eligible for an actuarially equivalent FAP benefit based on their age at the date the benefit is paid without an early retirement subsidy.<br><br>- The Cash Balance benefit component for service after 2010 is always based on the actual balance of the cash balance account as of the payment date and is not subject to any reduction for payment prior to normal retirement.<br><br>As of the end of fiscal 2016,<br>- Messrs. Anderson and Sorensen are eligible to receive a payment under the Retirement Plan without an early retirement subsidy for the FAP portion of the benefit. |
| **Tesoro Corporation Restoration Retirement Plan** | |
| **Short Description** | A non-qualified plan designed to restore the benefit which is not provided under the qualified Retirement Plan due to compensation and benefit limitations imposed under the Internal Revenue Code.<br><br>If any of the NEOs terminate employment prior to becoming eligible for a benefit under either the ESP or SERP, as applicable, and after attaining three years of service credit, they will receive a supplemental pension benefit under this plan. |
| **Benefit Formula** | Provides a benefit equal to the difference between the actual qualified Retirement Plan benefit paid to the participant, and the benefit that would have otherwise been paid to the participant under the Retirement Plan, without regard to certain Internal Revenue Code limits. |
| **Death and Disability Benefits** | Provides for certain death and disability benefits in the same manner as provided in the qualified Retirement Plan. Generally, the death benefit provides an equivalent FAP benefit and full Cash Balance account value as of the date of death. The disability benefit provides continued benefit accruals during the period of disability up to age 65.<br><br>As of December 31, 2016, the present value of these death and disability benefits were as follows: Mr. Anderson - $845,077 for death and $1,233,623 for disability; Mr. Sorensen - $426,667 for death and $927,752 for disability. The Partnership would reimbursement Tesoro for any such expense that was allocated to us during each NEO's service to the Partnership as follows: 100% for Mr. Anderson and 90% for Mr. Sorensen. |

## NON-QUALIFIED DEFERRED COMPENSATION IN 2016

The following table sets forth information regarding the contributions to and year-end balances under Tesoro Corporation Executive Deferred Compensation Plan for the NEOs in 2016. Pursuant to the terms of the Amended Omnibus Agreement, a portion of the expense related to this plan is allocated to us by Tesoro. The allocated expense, if any, for each of Messrs. Anderson and Sorensen is included in the All Other Compensation column of the Summary Compensation Table. The value of an employee's balance shown below may be tied significantly to contributions made prior to the time such employee began providing services to the Partnership and is not reflective of the expenses allocated to us. We are not allocated any portion of the expense for Messrs. Goff, Sterin and Ms. Rucker.

| Name | Executive Contributions in Last Fiscal Year (a) | Registrant Contributions in Last Fiscal Year (b) | Aggregate Earnings in Last Fiscal Year (c) | Aggregate Withdrawals/Distributions | Aggregate Balance at Last Fiscal Year-End (d) |
|---|---|---|---|---|---|
| Gregory J. Goff | $ — | $ — | $ — | $ — | $ — |
| Philip M. Anderson | — | — | 498 | — | 7,580 |
| Don J. Sorensen | 24,392 | 20,815 | 19,505 | — | 242,279 |
| Steven M. Sterin | — | — | — | — | — |
| Kim K.W. Rucker | — | — | — | — | — |

(a) The amounts shown include amounts reflected in the base salary column of the Summary Compensation Table for Mr. Sorensen.
(b) The amounts shown include amounts reflected in the All Other Compensation column of the Summary Compensation Table for Messrs. Anderson and Sorensen.
(c) The amounts shown reflect the change in the market value pertaining to the investment funds in which the NEOs have chosen to invest their contributions and the company's contribution under the Tesoro Corporation Executive Deferred Compensation Plan.
(d) A portion of the amounts disclosed in this column for Messrs. Anderson and Sorensen have previously been reported in the Summary Compensation Tables for previous years, including the following amounts: Mr. Anderson - $4,398 for 2015 and $2,170 for 2014; and Mr. Sorensen - $48,043 for 2015.

| Tesoro Corporation Executive Deferred Compensation Plan ("EDCP") | |
|---|---|
| **Short Description** | Provides executives and key management personnel (including our NEOs) the opportunity to make additional pre-tax deferrals that cannot be made under our qualified 401(k) plan ("Thrift Plan"), due to salary and limitations imposed under the Internal Revenue Code. |
| **Participant Contributions** | Participants may elect to defer up to 50% of their base salary and/or up to 100% of their annual bonus compensation after FICA tax deductions. |
| **Company Contributions** | We will match the participant's base salary contributions dollar-for-dollar up to 6% of eligible earnings above the IRS salary limitation (i.e., $265,000 for 2016).<br><br>Participants that are eligible for supplemental retirement benefits under the Executive Security Plan are eligible to defer compensation under the EDCP, but are not eligible for the matching provisions of the EDCP.<br><br>The EDCP also permits us to make discretionary contributions to participants' accounts from time to time in amounts and on terms as we may determine. No such additional discretionary contributions have been made on behalf of any of our NEOs' accounts to date. |
| **Vesting** | A participant will vest in our matching contributions upon the completion of three years of service. |

## 2016 POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

The following tables reflect the estimated amount of compensation for each of the NEOs upon certain termination events. Such compensation is in addition to the pension benefits for Messrs. Anderson and Sorensen, including certain termination-related pension benefits, described under the heading "Pension Benefits in 2016." The amounts shown below assume that the applicable termination occurred as of December 31, 2016 and are based on the agreements and arrangements in place on such date. The actual payments an executive would be entitled to may only be determined based upon the actual occurrence and circumstances surrounding the termination. The compensation and benefits (excluding their equity awards granted by the Partnership) for Messrs. Goff, Sterin, and Ms. Rucker would be paid by Tesoro and not the Partnership under these termination scenarios. Below are the assumptions used in determining the estimated payments upon various termination scenarios.

Messrs. Anderson and Sorensen are eligible for certain benefits either under a management stability agreement or the Tesoro Executive Severance and Change-in-Control Plan in the event of a termination without "Cause," a resignation with "Good Reason," or a "Termination following a change-in Control" in the event of a termination without cause or by the NEO with good reason within two years following a change-in-control (with such terms as defined in such plan or agreement). On August 2, 2016, Tesoro Corporation and Mr. Sorensen entered into a Waiver and Release (the "Waiver") to the Amended & Restated Management Stability Agreement originally executed on December 31, 2008. Under the terms of the Waiver, Mr. Sorensen waived and released any and all rights and benefits under the management stability agreement and the parties formally terminated the management stability agreement. In light of such termination of the management stability agreement, Mr. Sorensen participates in Tesoro's Executive Severance and Change in Control Plan.

| Name | Scenario | Severance ($) | Accelerated Equity Vesting ($) | Retirement Benefits ($) | Health Benefits ($) | Outplacement Services ($) | Total ($) |
|---|---|---|---|---|---|---|---|
| **Goff** | w/o Cause or w/Good Reason | — | 1,186,140 | — | — | — | 1,186,140 |
| | Term. after Change-in-Control | — | 4,336,346 | — | — | — | 4,336,346 |
| | Retirement or Voluntary Term. | — | 1,186,140 | — | — | — | 1,186,140 |
| | Death | — | 1,976,824 | — | — | — | 1,976,824 |
| | Disability | — | 1,976,824 | — | — | — | 1,976,824 |
| | w/Cause | — | — | — | — | — | — |
| **Anderson** | w/o Cause or w/Good Reason | — | 106,772 | — | — | — | 106,772 |
| | Term. after Change-in-Control | 1,330,000 | 402,677 | 228,338 | 42,891 | — | 2,003,906 |
| | Retirement or Voluntary Term. | — | — | — | — | — | — |
| | Death | — | 252,854 | — | — | — | 252,854 |
| | Disability | — | 252,854 | — | — | — | 252,854 |
| | w/Cause | — | — | — | — | — | — |
| **Sorensen** | w/o Cause or w/Good Reason | 914,914 | 118,648 | — | 25,226 | 31,500 | 1,090,288 |
| | Term. after Change-in-Control | 1,217,700 | 467,399 | — | 30,271 | — | 1,715,370 |
| | Retirement or Voluntary Term. | — | — | — | — | — | — |
| | Death | — | 287,654 | — | — | — | 287,654 |
| | Disability | — | 287,654 | — | — | — | 287,654 |
| | w/Cause | — | — | — | — | — | — |
| **Sterin** | w/o Cause or w/Good Reason | — | 207,634 | — | — | — | 207,634 |
| | Term. after Change-in-Control | — | 824,627 | — | — | — | 824,627 |
| | Retirement or Voluntary Term. | — | — | — | — | — | — |
| | Death | — | 505,565 | — | — | — | 505,565 |
| | Disability | — | 505,565 | — | — | — | 505,565 |
| | w/Cause | — | — | — | — | — | — |
| **Rucker** | w/o Cause or w/Good Reason | — | — | — | — | — | — |
| | Term. after Change-in-Control | — | 359,545 | — | — | — | 359,545 |
| | Retirement or Voluntary Term. | — | — | — | — | — | — |
| | Death | — | 119,848 | — | — | — | 119,848 |
| | Disability | — | 119,848 | — | — | — | 119,848 |
| | w/Cause | — | — | — | — | — | — |

**ACCRUED BENEFITS.** Messrs. Anderson and Sorensen would be entitled to the following accrued benefits: any accrued but unpaid base salary to the date of termination; any accrued but unpaid expenses; any unused vacation pay; any unpaid bonuses for a prior period to which they are entitled per the incentive compensation program; and any other benefits to which they are entitled. The Partnership's portion of these benefits will be 100% for Mr. Anderson and 90% for Mr. Sorensen.

**SEVERANCE.**

- **INVOLUNTARY TERMINATION WITHOUT CAUSE.** Pursuant to the Tesoro Executive Severance and Change-in-Control Plan, Mr. Sorensen will receive an amount equal to one and one-half times the sum of his base salary and the average bonuses paid during the preceding three years. Severance will be paid in a lump sum following the end of the six months after termination. The Partnership's portion of the severance, as reflected in the table, is 90% for Mr. Sorensen.

- **TERMINATION WITH A CHANGE-IN-CONTROL.** Pursuant to Mr. Anderson's management stability agreement, in the event of a termination by Tesoro without cause or by the NEO with good reason within two years following a change-

in-control of Tesoro Corporation (which would result in a change-in-control of our general partner and the Partnership), Mr. Anderson will receive a multiple of two times of his base salary and target annual bonus as well as a pro-rated bonus for the year of termination. Pursuant to the Executive Severance and CIC Plan, Mr. Sorensen will receive an amount equal to two times his base salary and target bonus. The severance amounts (excluding the pro-rated bonus, as applicable) will be paid in a lump sum after their termination. The Partnership's portion of the severance, as reflected in the table, is 100% for Mr. Anderson and 90% for Mr. Sorensen. These benefits would not be payable in the case of a change-in-control of the Partnership that did not also constitute a change-in-control of Tesoro Corporation.

**ACCELERATED EQUITY VESTING.**

- **INVOLUNTARY TERMINATION WITHOUT CAUSE.** Pursuant to the award agreements, as Mr. Goff is retirement eligible and Mr. Anderson, Mr. Sorensen, Mr. Sterin and Ms. Rucker have worked a minimum of twelve months during the performance period, as applicable, they will receive a pro-rated payout of their TLLP performance phantom units based on actual performance at the end of the performance period and will be paid the accumulated distribution equivalent rights on those units.
- **TERMINATION WITH A CHANGE-IN-CONTROL.** Pursuant to the award agreements for awards granted in 2015, Messrs. Goff, Anderson, Sorensen and Sterin will vest in their performance phantom units at target and will be paid the accumulated distribution equivalent rights accumulated on those units. Beginning with the 2016 awards, each NEO will vest in their performance phantom units at the greater of actual performance or target and will be paid the accumulated distribution equivalent rights accumulated on those units.
- **RETIREMENT OR VOLUNTARY TERMINATION.** Pursuant to the award agreements, as Mr. Goff is retirement eligible, he will receive a pro-rated award of his performance phantom units based on the actual performance at the end of the performance period along with the accumulated distribution equivalent rights. Mr. Anderson, Mr. Sorensen, Mr. Stein and Ms. Rucker will forfeit all unvested performance phantom awards, along with the accumulated distribution rights, since they are not retirement eligible.
- **DEATH AND DISABILITY.** Pursuant to the award agreements for awards granted in 2015, Messrs. Goff, Anderson, Sorensen and Sterin will vest in their performance phantom units at target and will be paid the accumulated distribution equivalent rights accumulated on those units. As Mr. Goff is retirement eligible, he will receive a pro-rated award of his performance phantom units, granted in 2016, based on the actual performance at the end of the performance period along with the accumulated distribution equivalent rights. Each NEO (other than Mr. Goff) will receive a pro-rated award of their performance phantom units, granted in 2016, based on the target performance with the accumulated distribution equivalent rights.

**RETIREMENT BENEFITS.**

- **TERMINATION WITH A CHANGE-IN-CONTROL.** Pursuant to his management stability agreement, Mr. Anderson will receive two additional service credits under the current non-qualified supplemental pension plans. The Partnership's portion, as reflected in the table, is 100% for Mr. Anderson. Mr. Sorensen does not receive any additional service credit under Tesoro's Executive Severance and CIC Plan. These benefits would not be payable in the case of a change-in-control of the Partnership that did not also constitute a change-in-control of Tesoro Corporation.

**HEALTH COVERAGE.**

- **INVOLUNTARY TERMINATION WITHOUT CAUSE.** Pursuant to Tesoro's Executive Severance and CIC Plan, Mr. Sorensen will receive medical benefits for eighteen months. The Partnership's portion, as reflected in the table, is 90% for Mr. Sorensen. These benefits would not be payable in the case of a change-in-control of the Partnership that did not also constitute a change-in-control of Tesoro Corporation.
- **TERMINATION WITH A CHANGE-IN-CONTROL.** Pursuant to Mr. Anderson's management stability agreement, he will receive health and welfare coverage for two years. Pursuant to Tesoro's Executive Severance and CIC Plan, Mr. Sorensen will receive medical benefits for two years. The Partnership's portion, as reflected in the table, is 100% for Mr. Anderson and 90% for Mr. Sorensen. These benefits would not be payable in the case of a change-in-control of the Partnership that did not also constitute a change-in-control of Tesoro Corporation.

**OUTPLACEMENT SERVICES.**

- **INVOLUNTARY TERMINATION WITHOUT CAUSE.** Pursuant to Tesoro's Executive Severance and CIC Plan, Mr. Sorensen will receive outplacement services for up to twelve months commencing after date of termination. The Partnership's portion, as reflected in the table, is 90% for Mr. Sorensen.

### RISK CONSIDERATIONS IN OUR COMPENSATION PROGRAMS

In August 2016, Tesoro's management, in consultation with the independent consultant to Tesoro Corporation's Compensation Committee, performed an assessment of the risk associated with Tesoro's compensation programs. Tesoro's 2016 assessment included an evaluation of TLLP's compensation framework. In October 2016, management reviewed with the Chairman of the Board and independent directors of our general partner the portion of the analysis relating to management's assessment of our general partner's employees, including executives, and discussed the concept of risk as it relates to our compensation programs. The assessment and discussions concluded the following:

- An appropriate pay philosophy and market comparisons support business objectives.
- Programs appropriately balance fixed compensation with short-term and long-term variable compensation such that no single pay element would motivate employees to engage in excessive risk taking.
- The characteristics of our annual incentive program design do not lend themselves to excessive risk taking because we base annual incentive awards on:
  - corporate, business unit and individual performance goals, with a variety of pre-established performance conditions in each category, thus diversifying the risk associated with any single indicator of performance; and
  - financial and non-financial performance targets that are objectively determined by measurable and verifiable results.
- Our long-term incentive program encourages employees to focus on our long-term success by providing performance phantom units that only reward employees if we meet specified performance goals. These awards also incorporate pre-established caps to prevent over-payment.

We have established a clawback policy that allows the Board of Directors to recoup incentive compensation received by a senior executive for misconduct resulting in a material financial restatement. The clawback policy is discussed in more detail under the heading "Compensation Discussion and Analysis - Clawback Policy."

## ITEM 12.SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RI STOCKHOLDER MATTERS

### SECURITY OWNERSHIP BY DIRECTORS AND EXECUTIVE OFFICERS

The following table shows the beneficial ownership of our units reported to us as of February 15, 2017, including units as to which a right to acquire ownership exists within the meaning of Rule 13d-3(d)(1) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for each director, each NEO, and our current directors and executive officers as a group.

- The ownership shown below includes common units underlying phantom units held by our directors and executive officers that vest within 60 days of February 15, 2017.
- Unless otherwise indicated, each person or member of the group listed has sole voting and investment power with respect to the common units listed.
- As of February 15, 2017, there were 102,996,246 common units outstanding (including 34,055,042 common units held by Tesoro Corporation and its affiliates). This table does not include the 2,100,900 general partner units held by Tesoro Logistics GP, LLC.
- None of our executive officers or directors hold general partner units.

| | Aggregate Number of Units Beneficially Owned | | Percent of Total Outstanding |
|---|---|---|---|
| Gregory J. Goff | 97,690 | | * |
| Phillip M. Anderson | 27,207 | | * |
| Raymond J. Bromark | 10,561 | (1 ) | * |
| Robert W. Goldman | 4,100 | | * |
| James H. Lamanna | 9,785 | (1 ) | * |
| Thomas C. O'Connor | 15,326 | (1 ) | * |
| Kim K.W. Rucker | — | | * |
| Don J. Sorensen | 1,177 | | * |
| Steven M. Sterin | 3,814 | | * |
| Michael E. Wiley | — | | * |
| **All Current Directors and Executive Officers as a Group (12 individuals)** | **169,660** | | * |

* Less than 1% of units outstanding.
(1) Includes 1,371 common units underlying phantom units.

The following table shows the beneficial ownership of common stock of Tesoro Corporation reported to us as of February 15, 2017, including shares as to which a vested right to acquire ownership exists (for example, through the exercise of stock options) within the meaning of Rule 13d-3(d)(1) under the Exchange Act and shares credited to accounts under Tesoro's Thrift Plan, for each director, the NEOs, and our current directors and executive officers as a group. Unless otherwise indicated, each person or member of the group listed has sole voting and investment power with respect to the shares of our common stock listed. As of February 15, 2017, there were 116,986,291 shares of Tesoro common stock outstanding.

| | Aggregate Number of Shares Beneficially Owned | | Percent of Total Outstanding | Additional Information |
|---|---|---|---|---|
| Gregory J. Goff | 769,633 | (1 ) | * | Includes 151,513 shares underlying stock options and 609 shares under the Tesoro Corporation Thrift Plan |
| Phillip M. Anderson | 6,964 | (2 ) | * | Includes 1,742 shares under the Tesoro Corporation Thrift Plan |
| Raymond J. Bromark | — | | * | |
| Robert W. Goldman | 47,662 | | * | Includes 9,000 shares underlying stock options and 4,532 shares underlying restricted stock units |
| James H. Lamanna | — | | * | |
| Thomas C. O'Connor | — | | * | |
| Kim K.W. Rucker | — | | * | |
| Don J. Sorensen | 15,782 | (3 ) | * | |
| Steven M. Sterin | 8,892 | | * | |
| Michael E. Wiley | 37,787 | | * | Includes 9,000 shares underlying stock options |
| **All Current Directors and Executive Officers as a Group (12 individuals)** | **886,720** | | * | |

* Less than 1% of outstanding common stock.
(1) Includes 32,115 performance shares based on ROCE scheduled to vest within 60 days.
(2) Includes 714 performance shares based on ROCE scheduled to vest within 60 days.
(3) Includes 800 performance shares based on ROCE scheduled to vest within 60 days.

# SECURITY OWNERSHIP AND RELATED STOCKHOLDER MATTERS

## SECURITY OWNERSHIP BY CERTAIN BENEFICIAL OWNERS

The following table shows the beneficial owners of 5% or more of any class of our outstanding units, based on information available as of February 15, 2017.

| | Amount and Nature of Beneficial Ownership | | | | |
|---|---|---|---|---|---|
| Name and Address of Beneficial Owner | Number of Common Units | Percent of Common Units (a) | Number of General Partner Units | Percent of General Partner Units (a) | Percent of Total Units (a) |
| Tesoro Corporation (b)<br>19100 Ridgewood Parkway<br>San Antonio, TX 78259 | 34,055,042 | 33.1% | 2,100,900 | 100% | 34.4% |
| Tortoise Capital Advisors, LLC (c)<br>11550 Ash Street, Suite 300<br>Leawood, KS 66211 | 11,165,489 | 10.8% | — | — | 10.6% |
| Center Coast Capital Advisors, LP (d)<br>1600 Smith Street, Suite 3800<br>Houston, TX 77002 | 5,361,917 | 5.2% | — | — | 5.1% |

(a) As of February 15, 2017, there were 102,996,246 common units and 2,100,900 general partner units outstanding, for an aggregate of 105,097,146 units.

(b) As of February 15, 2017, Tesoro Corporation directly held 15,620,925 common units. Affiliates of Tesoro Corporation also held common and general partner units: Tesoro Refining & Marketing Company LLC directly held 8,067,981 common units, including 151,021 common units held through its wholly-owned subsidiary, Carson Cogeneration Company; Tesoro Alaska Company LLC directly held 571,065 common units; and Tesoro Logistics GP, LLC directly held 9,644,050 common units and 2,100,900 general partner units. Tesoro Corporation is the ultimate parent company of each such entity and may, therefore, be deemed to beneficially own the units held by each such entity.

(c) Based on Amendment No. 7 to a Schedule 13G/A filed with the SEC on February 13, 2017, Tortoise Capital Advisors has sole voting and investment power with respect to 187,460 common units, shared voting power with respect to 9,750,559 common units, and shared investment power with respect to 10,978,029 common units.

(d) Based on a Schedule 13G filed with the SEC on January 10, 2017, Center Coast Capital Advisors, LP has shared voting and investment power with respect to 5,361,917 common units.

## EQUITY COMPENSATION PLAN INFORMATION

### INFORMATION REGARDING TESORO LOGISTICS GP, LLC'S EQUITY COMPENSATION PLANS, AS OF DECEMBER 31, 2016

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in the First Column) (c) |
|---|---|---|---|
| Equity Compensation plans approved by security holders | 382,593 | — | 1,085,464 |
| Equity compensation plans not approved by security holders | — | — | — |
| **Total** | **382,593** | **—** | **1,085,464** |

(a) The amounts in column (a) of this table reflect only phantom units that have been granted under the Tesoro Logistics LP 2011 Long-Term Incentive Plan, as amended and restated on October 4, 2016. No unit options have been granted. Each phantom unit shown in the table represents a right to receive (upon vesting and payout) a specified number of our common units. Vesting and payout may be conditioned upon achievement of pre-determined performance objectives (typically total unitholder return over a defined period) or conditioned only upon continued service with us and our affiliates. For illustrative purposes, the maximum payment (i.e., a 200% ratio) provided by the provisions of the award agreements has been assumed for vesting and payout of performance-related grants. Payment at target levels (i.e., a 100% ratio) would result in 204,977 units to be issued and 1,263,080 units remaining available for future issuance.

(b) No value is shown in column (b) because the phantom units do not have an exercise, or strike, price.

(c) For illustrative purposes, a maximum payment (i.e., a 200% ratio) has been assumed for vesting and payout of outstanding performance-related grants.

# ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

## CERTAIN RELATIONS AND RELATED PARTY TRANSACTIONS

As of February 15, 2017, Tesoro owns 34,055,042 common units and 2,100,900 general partner units, representing approximately 34% interest in us, including the 2% general partner interest. Tesoro also holds incentive distribution rights. Transactions with Tesoro and its affiliated entities are considered to be related party transactions because Tesoro and its affiliates own more than 5% of our equity interests. In addition, Messrs. Goff, Sterin and Peery, and Ms. Rucker serve as executive officers of both Tesoro and our general partner.

Whenever a conflict arises between our general partner or its affiliates, on the one hand, and us or our affiliates, on the other hand, our general partner will resolve that conflict. Although not required, we anticipate that our general partner will ask its Conflicts Committee to approve the fairness of significant transactions, such as the acquisition of logistics assets from Tesoro for which we have a right of first offer. See “Committees of the Board of Directors - Conflicts Committee” in Item 10.

The board of directors of our general partner has not adopted a formal written related-person transaction approval policy. However, in the event of a potential related person transaction other than potential conflicts transactions of the type described above, we expect that our general partner would use the following procedure when reviewing, approving, or ratifying the related person transaction. For these purposes, a “related person” is a director, nominee for director, executive officer, or holder of more than 5% of our common stock, or any immediate family member of a director, nominee for director or executive officer. This procedure applies to any financial transaction, arrangement or relationship or any series of similar financial transactions, arrangements or relationships in which we are a participant and in which a related person has a direct or indirect interest, except:

- payment of compensation by us to a related person for the related person’s service in the capacity or capacities that give rise to the person’s status as a related person;
- transactions available to all employees or all unitholders on the same terms;
- purchases from us in the ordinary course of business at the same price and on the same terms as offered to our other customers, regardless of whether the transactions are required to be reported in our filings with the SEC; and
- transactions, or any series of similar transactions, between the related person and us that involve less than $120,000 during the fiscal year.

We expect that the Audit Committee of our general partner would generally be asked to approve any related-person transaction before commencement of such transaction, provided that if the related-person transaction is identified after it commences, it is brought to the Audit Committee for ratification, amendment or rescission. The Audit Committee Chairman has the authority to approve or take other actions with respect to any related-person transaction that arises, or first becomes known, between meetings of the Audit Committee, provided that any such approval or action must be reported to our Audit Committee at its next regularly scheduled meeting.

We expect that, in determining whether to approve a related-person transaction, the Audit Committee would consider whether the terms are fair to us, whether the transaction is material to us, the role the related person has played in arranging the transaction, the structure of the transaction and the interests of all related persons in the transaction, as well as any other factors the Audit Committee deems appropriate. Our Audit Committee may, in its sole discretion, approve or deny any related-person transaction. Approval of a related-person transaction may be conditioned upon us and the related person following certain procedures designated by the Audit Committee.

**DISTRIBUTIONS.** We make cash distributions to our unitholders, including to Tesoro as the direct and indirect holder of approximately 34,055,042 common units, as well as a 2% general partner interest. If distributions exceed the minimum quarterly distribution and other higher target distribution levels, the general partner is entitled to increasing percentages of the distributions, up to 50% of the distributions above the highest target distribution level. During 2016, we distributed approximately $108.3 million to Tesoro and its affiliates with respect to common units and approximately $137.1 million with respect to the general partner interest (including incentive distribution rights). Tesoro waived its right to $10 million of distributions related to incentive distribution rights paid in 2016. In connection with the North Dakota Gathering and Processing Assets acquisition, our general partner agreed to ratably reduce its quarterly distributions with respect to incentive distribution rights by $100 million for distributions during 2017 and 2018.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

**PURCHASE AND SALE TRANSACTIONS.** Effective July 1, 2016, we entered into an agreement to purchase the Alaska Storage and Terminalling Assets from Tesoro in two phases. We completed the first phase on July 1, 2016 for consideration of approximately $240 million in cash and the issuance to Tesoro of $26 million in equity. We completed the second phase on September 16, 2016 for consideration of approximately $160 million in cash and the issuance to Tesoro of $18 million in equity.

In connection with the Alaska Storage and Terminalling Assets acquisition, in July 2016, Tesoro reimbursed us $4.0 million for interest we incurred in connection with borrowings under the Dropdown Credit Facility.

Effective November 21, 2016, we acquired the Northern California Terminalling and Storage Assets from Tesoro for consideration of $400 million, comprised of $360 million in cash and the issuance to Tesoro of approximately $40 million in equity.

In December 2016, we acquired additional assets in Kenai, Alaska, including an asphalt loading facility, asphalt and propane loading racks and a related truck scale, from Tesoro for consideration of $5 million in cash.

**OMNIBUS AGREEMENT.** We are party to the Third Amended and Restated Amended Omnibus Agreement (as amended, the "Amended Omnibus Agreement") with Tesoro and various Tesoro subsidiaries that addresses, among other things:

- our obligation to pay Tesoro an annual corporate services fee, currently in the amount of approximately $11 million, for the provision by Tesoro and its subsidiaries of certain centralized corporate services, as well as our obligation to reimburse Tesoro for all other direct or allocated costs and expenses incurred by Tesoro or its affiliates on our behalf;
- an agreement from TRMC and Tesoro Alaska Company LLC ("Tesoro Alaska") not to compete with us under certain circumstances;
- our right of first offer to acquire certain logistics assets from Tesoro, TRMC and Tesoro Alaska;
- the indemnification obligations of the parties for certain claims, losses and expenses attributable to certain environmental, title, tax and other liabilities relating to assets contributed by Tesoro and its subsidiaries to us; and
- the granting of a license from Tesoro to us with respect to use of the Tesoro name and trademark.

So long as Tesoro controls our general partner, the Amended Omnibus Agreement will remain in full force and effect unless mutually terminated by the parties. Tesoro charged us approximately $174.7 million pursuant to this agreement during 2016. During 2016, approximately $16.9 million, $22.1 million and $5.9 million related to expenses, capital expenditures and deferred tank reimbursement charges, respectively, were reimbursed to us pursuant to this agreement.

**SECONDMENT AND LOGISTICS SERVICES AGREEMENT.** Our subsidiaries are party to a Secondment Agreement with TLGP, Tesoro Alaska Company LLC, TRMC and Tesoro Companies, Inc. (Tesoro Alaska Company LLC, TRMC and Tesoro Companies, Inc. collectively the "Tesoro Group") under which the Tesoro Group provides us certain operational services, such as communications, electricity, software services, security, fire and safety, maintenance and certain environmental services. We and our subsidiaries pay the Tesoro Group an annual service fee for services performed by certain Tesoro Group field-level employees. Additionally, TLGP's employees may be seconded to Tesoro to provide operational and maintenance services related to certain assets, for which Tesoro reimburses TLGP for the associated costs. Tesoro charged us approximately $17.8 million, and we charged Tesoro approximately $4.6 million, pursuant to this agreement during 2016.

**COMMERCIAL AGREEMENTS.** We have entered into various long-term, fee-based commercial agreements with Tesoro under which we provide pipeline transportation, trucking, terminal distribution and storage services to Tesoro, and Tesoro commits to provide us with minimum monthly throughput volumes of crude oil and refined products. Except for our trucking transportation services agreements, the commercial agreements generally have ten year initial terms. We believe the terms and conditions under these agreements, as well as our other agreements with Tesoro described below, are generally no less favorable to either party than those that could have been negotiated with unaffiliated parties with respect to similar services. The services we provide Tesoro under these commercial agreements, and the approximate revenue we recognized, and related expense recognized by Tesoro under these categories of agreements in 2016 are:

**High Plains Pipeline Gathering and Trucking** ($79.1 million, including $3.6 million of imbalance settlements from Tesoro) - A pipeline transportation services agreement for gathering and transporting crude oil on our High Plains System, as well as a crude oil trucking transportation services agreement for trucking related services and storage at the Bakken Area Storage Hub;

**Terminalling Use, Services and Throughput** ($450.7 million) - Agreements for berth access, terminal use and services, storage and throughput at TLLP's marine terminals, storage and marketing terminals and similar facilities, including the Martinez Terminalling Agreement, the Nikiski Terminalling Agreement and the Anacortes Terminalling Agreement, the Anacortes Storage

Service Agreement, the Carson Storage Services Agreement, the Anacortes Rail Facility track use and throughput agreement, the Carson Coke Lease and Handling agreements, and numerous other agreements;

**Pipeline Transportation Services** ($79.6 million) - Pipeline transportation services agreements for transporting crude oil, refined products and other commodities on our short-haul pipeline systems in Salt Lake City and Los Angeles, as well as our pipeline system in the Los Angeles area and a regulated common carrier refined products pipeline system connecting Tesoro's Kenai refinery to Anchorage;

**Keep-Whole Commodity Agreement** ($97.3 million) - 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 the processor, in exchange, delivers to the producer natural gas with a BTU content equivalent to the NGLs removed. The operating margin for these contracts is determined by the spread between NGLs sales prices and the price paid to purchase the replacement natural gas ("Shrink Gas"). We entered into a five-year agreement with Tesoro, which transfers the commodity risk exposure associated with these keep-whole processing agreements from TLLP to Tesoro (as amended, the "Keep-Whole Commodity Agreement"). Under the Keep-Whole Commodity Agreement, Tesoro pays us a processing fee for NGLs related to keep-whole agreements and delivers Shrink Gas to the producers on our behalf. We pay Tesoro a marketing fee in exchange for assuming the commodity risk. Terms and pricing under this agreement are revised each year. The Keep-Whole Commodity Agreement minimizes the impact on us of commodity price movement during the annual period subsequent to renegotiation of terms and pricing each year. However, the annual fee we charge Tesoro could be impacted as a result of any changes in the spread between the natural gas liquids sales prices and the price of natural gas.

**Pipeline Transportation Tariffs** - Our Northwest Products System is a FERC-regulated system, and we do not have any contractual agreements with Tesoro related to the use of the system. However, we charged Tesoro approximately $10.7 million in pipeline transportation tariffs with respect to the use of the system in 2016.

**OTHER AGREEMENTS** **Anacortes Truck Rack Construction Agreement**- We constructed a new gasoline and diesel truck rack at the site of the Anacortes terminal we acquired as part of the West Coast Logistics Assets Acquisition. We contracted with TRMC to act as general contractor for the project. During 2016, Tesoro incurred an additional $0.9 million of capital expenditures related to the project which are accounted for as a capital contribution to us due to the related party nature of the asset acquisition.

**Carson Assets Indemnity Agreement** - We entered into the Carson Assets Indemnity Agreement with TRMC in connection with our December 2013 acquisition of certain Los Angeles logistics assets. This agreement established indemnification for certain matters including known and unknown environmental liabilities arising out of the use or operation of the Los Angeles Terminal Assets and the Los Angeles Logistics Assets prior to the respective acquisition dates. The agreement also provides for reimbursement by TRMC to us for repair and maintenance of the Los Angeles Terminal Assets and the Los Angeles Logistics Assets that are required to comply with current minimum standards under certain regulations for a period of 2 years after the effective date. In December 2016, the parties agreed to extend the reimbursement period. During 2016, TRMC incurred approximately $1.6 million related to expenses that were reimbursable to us.

**Carson Renewable Diesel Project** - Pursuant to an agreement effective December 31, 2016, we will install certain renewable diesel equipment at the Carson products terminals, and Tesoro will reimburse us for the estimated $2.7 million cost of the project. During 2016, we recorded a receivable and deferred revenue balance of $1.9 million under this agreement.

**Asphalt Rack Agreement -** On December 31, 2016, we entered into an agreement with Tesoro to purchase an asphalt loading facility from Tesoro, resulting in a contribution to us of $0.2 million.

Also, Tesoro conveyed to us the Tank 33 assets, and we reimbursed Tesoro for $3 million of related capital expenditures. We will continue to reimburse Tesoro for future costs related to the Tank 33 assets.

**Avon Marine Terminal Capital Expenditures** - Subsequent to the acquisition of the Avon marine terminal in connection with the Northern California Terminalling and Storage Assets, Tesoro incurred approximately $13.4 million of capital expenditures related to the renovation of the Avon marine terminal, which are accounted for as capital contributions to us as prescribed by the Amended Omnibus Agreement.

**Lease of Specified Capacity -** Effective December 1, 2016, we entered into a pipeline capacity lease agreement for a minimum of 5 Mbpd on a segment of the BakkenLink pipeline system purchased by Tesoro in early 2016. The initial agreement has a term of six months, but can be extended on a month-to-month basis. For December 2016, we paid BakkenLink $0.7 million.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

**Alaska Railroad Lease Assignment and Assumption Agreement**- Effective October 27, 2016, Tesoro assigned us the ground lease at the Anchorage 1 terminal between Alaska Railroad Corporation and Tesoro Alaska Petroleum Company, a wholly-owned subsidiary of Tesoro.

**TRMC Crude Oil Purchase**- On February 2, 2016, Green River Processing, LLC (GRP), our wholly owned subsidiary , entered into a master netting arrangement with Ultra Resources, Inc., whereby GRP purchases crude oil on TRMC's behalf and nets the amount due to Ultra for the purchase with the receivable due from Ultra for the gathering services provided by GRP. During 2016, GRP sold $32.3 million of crude oil to TRMC at the same price and on the same terms under which GRP purchased it.

**Sale of Natural Gas to TRMC**- In November 2015, TRMC and QEP Field Services, LLC (QEPFS), our wholly owned subsidiary, entered into an agreement whereby TRMC may purchase a certain volume of natural gas each month based on TRMC's needs and market conditions. In 2016, the total amount sold to TRMC was 916,000 MMBTU for consideration of $1.8 million.

### DIRECTOR INDEPENDENCE

See "Director Independence" in Item 10.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The Audit Committee has selected Ernst & Young LLP ("EY") to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2016. The Audit Committee in its discretion may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of us and our unitholders.

### AUDIT FEES FOR 2016 AND 2015

The following table presents fees billed for the years ended December 31, 2016 and 2015, for professional services performed by EY (in thousands).

| | Years Ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Audit Fees (a) | $ 1,210 | $ 1,360 |
| Audit-Related Fees | — | — |
| Tax Fees | — | — |
| All Other Fees | — | — |
| Total | $ 1,210 | $ 1,360 |

(a) Audit Fees represent the aggregate fees for professional services rendered by EY in connection with its audits of our consolidated financial statements, including the audits of internal control over financial reporting, reviews of the consolidated financial statements included in our Quarterly Reports on Form 10-Q and services that were provided in connection with registration statements, comfort letters and accounting consultations.

In accordance with the Audit Committee charter, all audit and permitted non-audit services performed by EY in 2016 and 2015 were pre-approved by the Audit Committee. The Audit Committee's pre-approval procedures provide for pre-approval of specifically described audit, audit-related and tax services by the Audit Committee on an annual basis as long as the Audit Committee is informed of each service and the services do not exceed certain pre-established thresholds. The procedures also authorize the Audit Committee to delegate to the Chairman of the Audit Committee pre-approval authorization with respect to audit and permitted non-audit services; any such services that are approved by the Audit Committee Chairman must be ratified at the next regularly scheduled meeting of the Audit Committee.

# PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

### (a) 1. FINANCIAL STATEMENTS

The following consolidated financial statements of Tesoro Logistics LP and its subsidiaries are included in Part II, Item 8 of this Form 10-K:



### 2. FINANCIAL STATEMENT SCHEDULES

No financial statement schedules are submitted because of the absence of the conditions under which they are required, the required information is insignificant or because the required information is included in the consolidated financial statements.

### 3. EXHIBITS

| | | Incorporated by Reference (File No. 1-35143, unless otherwise indicated) | | |
|---|---|---|---|---|
| Exhibit Number | Description of Exhibit | Form | Exhibit | Filing Date |
| 2.1 | Contribution, Conveyance and Assumption Agreement, dated as of November 12, 2015, among Tesoro Corporation, Tesoro Logistics LP, Tesoro Logistics GP, LLC, Tesoro Logistics Operations LLC, Tesoro SoCal Pipeline Company LLC, Tesoro Refining & Marketing Company LLC and Carson Cogeneration Company | 8-K | 2.1 | 11/12/2015 |
| 2.2 | 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 | 8-K | 2.1 | 7/7/2016 |
| 2.3 | Revision to the Contribution, Conveyance and Assumption Agreement, dated as of July 27, 2016, among Tesoro Logistics LP, Tesoro Logistics GP, LLC, Tesoro Logistics Operations LLC, Tesoro Alaska Company LLC and Tesoro Corporation | 10-Q | 2.2 | 11/2/2016 |
| *2.4 | Revision to the Contribution, Conveyance and Assumption Agreement, dated as of November 21, 2016, by and among Tesoro Logistics LP, Tesoro Logistics GP, LLC, Tesoro Logistics Operations LLC, Tesoro Corporation and Tesoro Refining & Marketing Company LLC | | | |
| 2.5 | Asset Sale and Purchase Agreement by and between Tesoro Logistics Operations LLC and Northwest Terminalling Company dated as of December 6, 2012 | 8-K | 2.1 | 12/11/2012 |
| 2.6 | Asset Sale and Purchase Agreement by and between Tesoro Logistics Northwest Pipeline LLC and Chevron Pipe Line Company dated as of December 6, 2012 | 8-K | 2.2 | 12/11/2012 |
| 2.7 | Amendment to Northwest Products System - Terminal Interests Asset Sale and Purchase Agreement by and between Tesoro Logistics Operations LLC and Northwest Terminalling Company, dated as of March 28, 2013 | 8-K | 2.1 | 4/1/2013 |
| 2.8 | Amendment to Northwest Products Pipeline System Asset Sale and Purchase Agreement by and between Tesoro Logistics Northwest Pipeline LLC and Chevron Pipe Line Company, dated as of March 28, 2013 | 8-K | 2.2 | 4/1/2013 |
| 2.9 | Agreement Concerning Northwest Products System Asset Sale and Purchase Agreements among Chevron Pipe Line Company, Northwest Terminalling Company, Tesoro Logistics Northwest Pipeline LLC and Tesoro Logistics Operations LLC, dated as of May 17, 2013 | 8-K | 2.1 | 5/20/2013 |

| Exhibit Number | Description of Exhibit | Incorporated by Reference (File No. 1-35143, unless otherwise indicated) Form | Exhibit | Filing Date |
|---|---|---|---|---|
| 2.10 | Membership Interest Purchase Agreement, dated as of October 19, 2014, between Tesoro Logistics LP and QEP Field Services Company | 8-K | 2.1 | 10/20/2014 |
| 2.11 | Amendment No. 1 to Membership Interest Purchase Agreement, dated as of December 2, 2014, between Tesoro Logistics LP and QEP Field Services Company | 8-K | 2.2 | 12/8/2014 |
| 2.12 | Agreement and Plan of Merger, dated as of April 6, 2015, by and among Tesoro Logistics LP, Tesoro Logistics GP, LLC, QEP Field Services, LLC, TLLPMerger Sub LLC, QEPMidstream Partners, LP, and QEPMidstream Partners GP, LLC | 8-K | 2.1 | 4/6/2015 |
| 3.1 | Certificate of Limited Partnership of Tesoro Logistics LP | S-1 (File No. 333-171525) | 3.1 | 1/4/2011 |
| 3.2 | Certificate of Formation of Tesoro Logistics GP, LLC | S-1 (File No. 333-171525) | 3.3 | 1/4/2011 |
| 3.3 | First Amended and Restated Agreement of Limited Partnership of Tesoro Logistics LP dated April 26, 2011 | 8-K | 3.1 | 4/29/2011 |
| 3.4 | Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Tesoro Logistics LP, dated as of December 2, 2014, entered into and effectuated by Tesoro Logistics GP, LLC | 8-K | 3.1 | 12/8/2014 |
| 3.5 | Amendment No. 2 to First Amended and Restated Agreement of Limited Partnership of Tesoro Logistics LP, dated as of November 21, 2016, entered into and effectuated by Tesoro Logistics GP, LLC | 8-K | 3.1 | 11/21/2016 |
| 3.6 | Second Amended and Restated Limited Liability Company Agreement of Tesoro Logistics GP, LLC, dated as of July 1, 2014, among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Alaska Company LLC, and Tesoro Logistics GP, LLC | 8-K | 3.1 | 7/1/2014 |
| 3.7 | Amendment No. 1 to the Second Amended and Restated Limited Liability Company Agreement of Tesoro Logistics GP, LLC, dated as of July 1, 2014, among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Alaska Company LLC, and Tesoro Logistics GP, LLC | 8-K | 3.1 | 9/30/2014 |
| 3.8 | Amendment No. 2 to the Second Amended and Restated Limited Liability Company Agreement of Tesoro Logistics GP, LLC, dated as of November 12, 2015, among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, and Tesoro Alaska Company LLC | 8-K | 3.1 | 11/12/2015 |
| 3.9 | 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 | 10-Q | 3.1 | 8/4/2016 |
| 3.10 | Amendment No. 4 to the Second Amended and Restated Limited Liability Company Agreement of Tesoro Logistics GP, LLC, dated as September 16, 2016, by and among Tesoro Logistics GP, LLC, Tesoro Corporation, Tesoro Refining & Marketing Company LLC and Tesoro Alaska Company LLC | 8-K | 3.1 | 9/22/2016 |
| 3.11 | Amendment No. 5 to the Second Amended and Restated Limited Liability Company Agreement of Tesoro Logistics GP, LLC, dated as of November 21, 2016, by and among Tesoro Logistics GP, LLC, Tesoro Corporation, Tesoro Refining & Marketing Company LLC and Tesoro Alaska Company LLC | 8-K | 3.2 | 11/21/2016 |
| 4.1 | Indenture, effective September 14, 2012, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 5.875% Senior Notes due 2020 | 8-K | 4.1 | 9/17/2012 |
| 4.2 | First Supplemental Indenture, dated as of January 24, 2013, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 5.875% Senior Notes due 2020 | 10-K | 4.2 | 2/28/2013 |
| 4.3 | Second Supplemental Indenture, dated as of December 9, 2013, among Tesoro SoCal Pipeline Company LLC, Tesoro Logistics LP, Tesoro Logistics Finance Corp., and U.S. Bank National Association, as trustee, relating to the 5.875% Senior Notes due 2020 | 8-K | 4.2 | 12/12/2013 |

| Exhibit Number | Description of Exhibit | Incorporated by Reference (File No. 1-35143, unless otherwise indicated) Form | Exhibit | Filing Date |
|---|---|---|---|---|
| 4.4 | Third Supplemental Indenture, dated as of December 17, 2013, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 5.875% Senior Notes due 2020 | 8-K | 4.2 | 12/17/2013 |
| 4.5 | Fourth Supplemental Indenture, dated as of October 8, 2014, among Tesoro Alaska Pipeline Company LLC, Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. National Bank Association, as trustee, relating to the 5.875% Senior Notes due 2020 | 10-Q | 4.1 | 10/31/2014 |
| 4.6 | Fifth Supplemental Indenture, dated as of January 8, 2015, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. National Bank Association, as trustee, relating to the 5.875% Senior Notes due 2020 | 10-K | 4.6 | 2/24/2015 |
| 4.7 | Sixth Supplemental Indenture, dated as of May 21, 2015, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 5.875% Senior Notes due 2020 | 10-Q | 4.3 | 8/6/2015 |
| 4.8 | Indenture, dated as of August 1, 2013, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 6.125% Senior Notes due 2021 | 8-K | 4.1 | 8/2/2013 |
| 4.9 | First Supplemental Indenture, dated as of December 9, 2013, among Tesoro SoCal Pipeline Company LLC, Tesoro Logistics LP, Tesoro Logistics Finance Corp., and U.S. Bank National Association, as trustee, relating to the 6.125% Senior Notes due 2021 | 8-K | 4.1 | 12/12/2013 |
| 4.10 | Second Supplemental Indenture, dated as of October 8, 2014, among Tesoro Alaska Pipeline Company LLC, Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. National Bank Association, as trustee, relating to the 6.125% Senior Notes due 2021 | 10-Q | 4.1 | 10/31/2014 |
| 4.11 | Third Supplemental Indenture, dated as of January 8, 2015, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. National Bank Association, as trustee, relating to the 6.125% Senior Notes due 2021 | 10-K | 4.6 | 2/24/2015 |
| 4.12 | Fourth Supplemental Indenture, dated as of May 21, 2015, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 6.125% Senior Notes due 2021 | 10-Q | 4.2 | 8/6/2015 |
| 4.13 | 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 6.125% Senior Notes due 2021 | 8-K | 4.2 | 5/12/2016 |
| 4.14 | Indenture, dated as of October 29, 2014, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 5.50% Senior Notes due 2019 and the 6.25% Senior Notes due 2022 | 8-K | 4.1 | 10/29/2014 |
| 4.15 | First Supplemental Indenture, dated as of December 2, 2014, among the Partnership, Tesoro Logistics Finance Corp., QEP Field Services, LLC, the other entities party thereto, and U.S. Bank National Association, as trustee, relating to the 5.50% Senior Notes due 2019 and the 6.25% Senior Notes due 2022 | 8-K | 4.1 | 12/8/2014 |
| 4.16 | Second Supplemental Indenture, dated as of May 21, 2015, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 5.50% Senior Notes due 2019 and the 6.25% Senior Notes due 2022 | 10-Q | 4.1 | 8/6/2015 |
| 4.17 | 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 6.375% Senior Notes due 2024 | 8-K | 4.3 | 5/12/2016 |
| 4.18 | Indenture, dated as of December 2, 2016, among Tesoro Logistics LP, Tesoro Logistics Finance Corp., the guarantors named therein and U.S. Bank National Association, as trustee, relating to the 5.25% Senior Notes due 2025 | 8-K | 4.1 | 12/2/2016 |
| 10.1 | Third Amended and Restated Senior Secured Revolving Credit Agreement, dated as of January 29, 2016, among Tesoro Logistics LP, Bank of America, N.A., as administrative agent, and the other lenders party thereto | 8-K | 10.1 | 2/3/2016 |

| Exhibit Number | Description of Exhibit | Incorporated by Reference (File No. 1-35143, unless otherwise indicated) Form | Exhibit | Filing Date |
|---|---|---|---|---|
| 10.2 | Senior Secured Revolving Credit Agreement, dated as of January 29, 2016, among Tesoro Logistics LP, Bank of America, N.A., as administrative agent, and the other lenders party thereto | 8-K | 10.2 | 2/3/2016 |
| 10.3 | Support Agreement, dated as of April 6, 2015 by and among QEP Midstream Partners, LP, Tesoro Logistics LP, and QEP Field Services, LLC | 8-K | 10.1 | 4/6/2015 |
| 10.4 | Third Amended and Restated Omnibus Agreement, dated as of July 1, 2014, among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, Tesoro Logistics LP and Tesoro Logistics GP, LLC | 8-K | 10.10 | 7/1/2014 |
| 10.5 | Amendment No. 1 to the Third Amended and Restated Omnibus Agreement, dated as of February 20, 2015, among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Companies Inc., Tesoro Alaska Company LLC, Tesoro Logistics LP and Tesoro Logistics GP, LLC | 10-K | 10.18 | 2/24/2015 |
| 10.6 | Amendment No. 2 to the Third Amended and Restated Omnibus Agreement, dated as of August 3, 2015, among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, Tesoro Logistics LP and Tesoro Logistics GP, LLC | 10-Q | 10.3 | 8/6/2015 |
| 10.7 | First Amended and Restated Schedules to the Third Amended and Restated Omnibus Agreement, dated as of November 12, 2015, among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, Tesoro Logistics LP, Tesoro Logistics GP, LLC and the other Tesoro entities named therein | 8-K | 10.1 | 11/12/2015 |
| 10.8 | 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. | 8-K | 10.2 | 7/7/2016 |
| 10.9 | Third Amended and Restated Schedules to the Third Amended and Restated Omnibus Agreement, dated as of September 16, 2016, by and among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, Tesoro Logistics LP and Tesoro Logistics GP, LLC | 8-K | 10.4 | 9/22/2016 |
| 10.10 | Fourth Amended and Restated Schedules to the Third Amended and Restated Omnibus Agreement, dated as of November 21, 2016, by and among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, Tesoro Logistics LP and Tesoro Logistics GP, LLC | 8-K | 10.1 | 11/21/2016 |
| 10.11 | Secondment and Logistics Services Agreement, dated as of July 1, 2014, among Tesoro Refining & Marketing Company LLC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics Operations, LLC, Tesoro Logistics Pipelines LLC, Tesoro High Plains Pipeline Company LLC, Tesoro Logistics Northwest Pipeline LLC and Tesoro Alaska Pipeline Company LLC | 8-K | 10.11 | 7/1/2014 |
| 10.12 | Amendment No. 1 to Secondment and Logistics Services Agreement, dated as of December 2, 2014, among Tesoro Refining & Marketing Company LLC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics Operations, LLC, Tesoro Logistics Pipelines LLC, Tesoro High Plains Pipeline Company LLC, Tesoro Logistics Northwest Pipeline LLC, Tesoro Alaska Pipeline Company LLC, QEP Field Services, LLC, QEP Midstream Partners GP, LLC, QEP Midstream Partners Operating, LLC, QEPM Gathering I, LLC, Rendezvous Pipeline Company, LLC and Green River Processing, LLC | 8-K | 10.8 | 12/8/2014 |
| 10.13 | 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 | 10-Q | 10.1 | 5/5/2016 |

| Exhibit Number | Description of Exhibit | Incorporated by Reference (File No. 1-35143, unless otherwise indicated) Form | Exhibit | Filing Date |
|---|---|---|---|---|
| 10.14 | Amendment No. 3 to Secondment and Logistics Services Agreement, dated as of November 21, 2016, among Tesoro Companies Inc., Tesoro Refining & Marketing Company LLC, Tesoro Alaska Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics Operations LLC, Tesoro Logistics Pipelines LLC, Tesoro High Plains Pipeline Company LLC, Tesoro Logistics Northwest Pipeline LLC, and Tesoro Alaska Pipeline Company LLC | 8-K | 10.5 | 11/21/2016 |
| 10.15 | Transportation Services Agreement (High Plains Pipeline System), dated as of April 26, 2011, between Tesoro High Plains Pipeline Company LLC and Tesoro Refining and Marketing Company | 8-K | 10.6 | 4/29/2011 |
| 10.16 | Second Amended and Restated Trucking Transportation Services Agreement, dated as of March 26, 2013, among Tesoro Logistics Operations, LLC and Tesoro Refining & Marketing Company LLC | 8-K | 10.1 | 4/1/2013 |
| 10.17 | Second Amended and Restated Master Terminalling Services Agreement, dated as of May 3, 2013, among Tesoro Refining and Marketing Company LLC, Tesoro Alaska Company and Tesoro Logistics Operations LLC | 10-Q | 10.2 | 5/8/2013 |
| 10.18 | Amendment No. 1 to the Second Amended and Restated Master Terminalling Services Agreement dated as of September 16, 2016, by and among Tesoro Refining and Marketing Company LLC, Tesoro Alaska Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.1 | 9/22/2016 |
| 10.19 | Amended and Restated Master Terminalling Services Agreement – Southern California, dated as December 6, 2013, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.10 | 12/9/2013 |
| 10.20 | Terminal Expansion Agreement, dated as of February 27, 2012, between Tesoro Logistics Operations LLC and Tesoro Refining and Marketing Company | 10-K | 10.21 | 2/29/2012 |
| 10.21 | Amended and Restated Transportation Services Agreement (Salt Lake City Short-Haul Pipelines), dated as of November 19, 2014, between Tesoro Logistics Operations LLC and Tesoro Refining and Marketing Company | 8-K | 10.3 | 12/15/2014 |
| 10.22 | Salt Lake City Storage and Transportation Services Agreement, dated as of April 26, 2011, between Tesoro Refining and Marketing Company and Tesoro Logistics Operations LLC | 8-K | 10.10 | 4/29/2011 |
| 10.23 | Terminal Sublease, dated as of April 26, 2011, between Tesoro Alaska Company, as Landlord, and Tesoro Alaska Logistics LLC, as Tenant | 8-K | 10.11 | 4/29/2011 |
| 10.24 | Amorco Marine Terminal Use and Throughput Agreement, effective April 1, 2012, between Tesoro Refining and Marketing Company and Tesoro Logistics Operations LLC | 8-K | 10.4 | 4/3/2012 |
| 10.25 | Amended and Restated Long Beach Berth Access Use and Throughput Agreement, dated as of December 6, 2013, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.8 | 12/9/2013 |
| 10.26 | Long Beach Berth Throughput Agreement, dated as of December 6, 2013, among Carson Cogeneration Company, Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.9 | 12/9/2013 |
| 10.27 | Long Beach Operating Agreement, effective September 14, 2012, between Tesoro Logistics Operations LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP and Tesoro Refining and Marketing Company | 8-K | 10.6 | 9/17/2012 |
| 10.28 | Long Beach Storage Services Agreement, dated as of December 6, 2013, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.11 | 12/9/2013 |
| 10.29 | Long Beach Pipeline Throughput Agreement (84/86 Pipelines), dated as of December 6, 2013, between the Operating Company and Tesoro Refining & Marketing Company LLC | 8-K | 10.13 | 12/9/2013 |
| 10.30 | Transportation Services Agreement (Los Angeles Short-Haul Pipelines), effective September 14, 2012, among Tesoro Logistics Operations LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP and Tesoro Refining and Marketing Company | 8-K | 10.7 | 9/17/2012 |

## EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

| Exhibit Number | Description of Exhibit | Incorporated by Reference (File No. 1-35143, unless otherwise indicated) Form | Exhibit | Filing Date |
|---|---|---|---|---|
| 10.31 | Anacortes Track Use and Throughput Agreement, dated as of November 15, 2012, among Tesoro Logistics LP, Tesoro Logistics GP, LLC, Tesoro Refining and Marketing Company and Tesoro Logistics Operations LLC | 8-K | 10.4 | 11/15/2012 |
| 10.32 | Amendment No. 1 to Anacortes Track Use and Throughput Agreement, dated as of July 1, 2014, between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.3 | 7/1/2014 |
| 10.33 | Ground Lease, dated as of November 15, 2012, between Tesoro Logistics Operations LLC and Tesoro Refining and Marketing Company | 8-K | 10.5 | 11/15/2012 |
| 10.34 | First Amendment to Ground Lease, dated as of July 1, 2014, between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.6 | 7/1/2014 |
| 10.35 | Ground Lease dated as of July 1, 2014, between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.7 | 7/1/2014 |
| 10.36 | Right of First Refusal, Option Agreement and Agreement of Purchase and Sale, dated as of November 15, 2012, between Tesoro Logistics Operations LLC and Tesoro Refining and Marketing Company | 8-K | 10.6 | 11/15/2012 |
| 10.37 | Second Amended and Restated Representation and Services Agreement for Oil Spill Contingency Planning, Response and Remediation, dated as of September 16, 2016, by and among Tesoro Companies, Inc., Tesoro Maritime Company, Tesoro Refining & Marketing Company LLC, Tesoro Alaska Company LLC, Kenai Pipe Line Company, Tesoro Alaska Pipeline Company LLC, Carson Cogeneration Company, Tesoro Great Plains Midstream LLC, Tesoro Great Plains Gathering & Marketing LLC, BakkenLink Pipeline LLC, ND Land Holdings LLC, Tesoro Logistics Operations LLC, Tesoro High Plains Pipeline Company LLC, Tesoro Logistics Pipelines LLC, Tesoro Logistics Northwest Pipeline LLC, Tesoro SoCal Pipeline Company LLC, QEP Field Services, LLC, QEPM Gathering I, LLC, Green River Processing, LLC, Rendezvous Pipeline Company, LLC and Tesoro Alaska Terminals LLC | 8-K | 10.3 | 9/22/2016 |
| 10.38 | Carson Storage Services Agreement, dated as of June 1, 2013, among Tesoro Logistics LP, Tesoro Logistics GP, LLC, Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.5 | 6/3/2013 |
| 10.39 | Carson Assets Indemnity Agreement, dated as of December 6, 2013, among Tesoro Corporation, Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.2 | 12/9/2013 |
| 10.40 | Carson II Storage Services Agreement, dated as of November 12, 2015, by and between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.2 | 11/12/2015 |
| 10.41 | Berth 121 Sublease Rights Agreement, dated as of December 6, 2013, among Carson Cogeneration Company, Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.3 | 12/9/2013 |
| 10.42 | Berth 121 Operating Agreement, dated as of December 6, 2013, between Carson Cogeneration Company and Tesoro Logistics Operations LLC | 8-K | 10.4 | 12/9/2013 |
| 10.43 | Terminal 2 Sublease Rights Agreement, dated as of December 6, 2013, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.5 | 12/9/2013 |
| 10.44 | Terminals 2 and 3 Ground Lease Rights Agreement, dated as of December 6, 2013, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.6 | 12/9/2013 |
| 10.45 | Terminals 2 and 3 Operating Agreement, dated as of December 6, 2013, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.7 | 12/9/2013 |
| 10.46 | Transportation Services Agreement (SoCal Pipelines), dated as of December 6, 2013, between Tesoro Refining & Marketing Company LLC and Tesoro SoCal Pipeline Company LLC | 8-K | 10.12 | 12/9/2013 |
| 10.47 | Amendment No. 1 to Transportation Services Agreement (SoCal Pipelines), dated as of November 12, 2015, among Tesoro SoCal Pipeline Company LLC and Tesoro Refining & Marketing Company LLC | 8-K | 10.3 | 11/12/2015 |

| Exhibit Number | Description of Exhibit | Incorporated by Reference (File No. 1-35143, unless otherwise indicated) Form | Exhibit | Filing Date |
|---|---|---|---|---|
| 10.48 | Carson Coke Handling Services Agreement, dated as of December 6, 2013, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.14 | 12/9/2013 |
| 10.49 | Lease Agreement, dated as of December 6, 2013, between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.19 | 12/9/2013 |
| 10.50 | Sublease, dated as of December 9, 2013, by and between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 8-K | 2.1 | 12/10/2013 |
| 10.51 | Lease, dated as of January 11, 2012, by and between the City of Long Beach and Tesoro Refining & Marketing Company LLC | 8-K | 2.2 | 12/10/2013 |
| 10.52 | License Agreement, dated as of November 12, 2015, among Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.4 | 11/12/2015 |
| 10.53 | Construction Service Agreement - Anacortes Products Terminal, dated as of July 28, 2014, between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 10-Q | 10.1 | 8/1/2014 |
| 10.54 | Terminalling Services Agreement – Nikiski, dated as of July 1, 2014, among Tesoro Alaska Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.1 | 7/1/2014 |
| 10.55 | Terminalling Services Agreement – Anacortes, dated as of July 1, 2014, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP and Tesoro Logistics Operations LLC | 8-K | 10.2 | 7/1/2014 |
| 10.56 | Amendment No.1 to Terminalling Services Agreement - Anacortes, dated as of November 1, 2015, between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 10-K | 10.71 | 2/25/2016 |
| 10.57 | Terminalling Services Agreement – Martinez, dated as of July 1, 2014, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP, and Tesoro Logistics Operations LLC | 8-K | 10.4 | 7/1/2014 |
| 10.58 | Storage Services Agreement - Anacortes, dated as of July 1, 2014, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP and Tesoro Logistics Operations LLC | 8-K | 10.5 | 7/1/2014 |
| 10.59 | Martinez License Agreement, dated as of July 1, 2014, between Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.8 | 7/1/2014 |
| 10.60 | Martinez Rights Agreement, dated as of July 1, 2014, among Tesoro Refining & Marketing Company LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP and Tesoro Logistics Operations LLC | 8-K | 10.9 | 7/1/2014 |
| 10.61 | Indemnification Agreement, dated as of December 2, 2014, between Tesoro Logistics LP and QEP Field Services Company | 8-K | 10.1 | 12/8/2014 |
| 10.62 | Transition Services Agreement, dated as of December 2, 2014, between Tesoro Logistics LP and QEP Resources, Inc. | 8-K | 10.2 | 12/8/2014 |
| 10.63 | Guaranty, dated as of December 2, 2014, by QEP Resources, Inc., in favor of Tesoro Logistics LP | 8-K | 10.3 | 12/8/2014 |
| 10.64 | Intercompany Indemnity, Subrogation and Contribution Agreement, dated as of December 2, 2014, among Tesoro Logistics LP, QEP Midstream Partners, LP, QEP Midstream Partners Operating, LLC, QEPM Gathering I, LLC, Rendezvous Pipeline Company, LLC and Green River Processing, LLC | 8-K | 10.6 | 12/8/2014 |
| 10.65 | Keep-Whole Commodity Fee Agreement, dated as of December 7, 2014, among Tesoro Refining & Marketing Company LLC, QEP Field Services, LLC, QEPM Gathering I, LLC and Green River Processing, LLC | 8-K | 10.9 | 12/8/2014 |
| 10.66 | First Amendment to Keep-Whole Commodity Fee Agreement, dated as of February 1, 2016, among QEP Field Services, LLC, QEPM Gathering I, LLC, Green River Processing, LLC, and Tesoro Refining & Marketing Company LLC | 8-K | 10.3 | 2/3/2016 |

## EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

| Exhibit Number | Description of Exhibit | Incorporated by Reference (File No. 1-35143, unless otherwise indicated) Form | Exhibit | Filing Date |
|---|---|---|---|---|
| 10.67 | Agreement, dated effective as of February 19, 2016, between Tesoro Refining and Marketing Company LLC and Green River Processing, LLC, related to the back-to-back purchase and sale of waxy crude oil | 10-K | 10.82 | 2/25/2016 |
| 10.68 | Ground Lease, dated as of July 1, 2016, between Tesoro Alaska Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.1 | 7/7/2016 |
| 10.69 | 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 | 8-K | 10.3 | 7/7/2016 |
| 10.70 | Alaska Terminalling Services Agreement, dated as of September 16, 2016 by and among Tesoro Alaska Company LLC, Tesoro Logistics Operations LLC, Tesoro Alaska Terminals LLC, Tesoro Logistics GP, LLC and Tesoro Logistics LP | 8-K | 10.2 | 9/22/2016 |
| 10.71 | Martinez Storage Services Agreement, dated as of November 21, 2016, by and among Tesoro Refining & Marketing Company LLC, Tesoro Logistics Operations LLC, Tesoro Logistics GP, LLC and Tesoro Logistics LP | 8-K | 10.2 | 11/21/2013 |
| 10.72 | License Agreement, dated as of November 21, 2016, by and among Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.3 | 11/21/2013 |
| 10.73 | Avon Marine Terminal Operating Agreement, dated as of November 21, 2016, by and among Tesoro Logistics Operations LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP and Tesoro Refining & Marketing Company LLC | 8-K | 10.4 | 11/21/2013 |
| 10.74 | Sublease, dated as of November 21, 2016, by and among Tesoro Refining & Marketing Company LLC and Tesoro Logistics Operations LLC | 8-K | 10.6 | 11/21/2013 |
| 10.75 | Avon Marine Terminal Use and Throughput Agreement, dated as of November 21, 2016, by and among Tesoro Logistics Operations LLC, Tesoro Logistics GP, LLC, Tesoro Logistics LP and Tesoro Refining & Marketing Company LLC | 8-K | 10.7 | 11/21/2013 |
| †10.76 | Tesoro Logistics LP 2011 Long-Term Incentive Plan as amended and restated on October 4, 2016 | 8-K | 10.1 | 10/5/2016 |
| †10.77 | Form of Tesoro Logistics LP 2011 Long-Term Incentive Plan Phantom Unit Award (Employee time-vesting awards) | S-1 (File No. 333-171525) | 10.17 | 1/4/2011 |
| †10.78 | Form of Tesoro Logistics LP 2011 Long-Term Incentive Plan Phantom Unit Award (Non-employee director awards) | 10-K | 10.10 | 2/24/2014 |
| †10.79 | Form of Tesoro Logistics LP 2011 Long-Term Incentive Plan Performance Phantom Unit Agreement (Employee performance-based awards granted in 2013 and 2014) | 8-K | 10.1 | 2/13/2013 |
| †10.80 | Tesoro Logistics LP 2013 Grant of Performance-Vesting Phantom Units and Tandem DERs Term Sheet (Employee performance-based awards granted in 2013) | 8-K | 10.2 | 2/13/2013 |
| †10.81 | Tesoro Logistics LP 2014 Grant of Performance-Vesting Phantom Units and Tandem DERs Term Sheet (Employee performance-based awards granted in 2014) | 8-K | 10.2 | 2/12/2014 |
| †10.82 | Form of Tesoro Logistics LP 2011 Long-Term Incentive Plan Performance Phantom Unit Agreement (Employee performance-based awards granted in 2015) | 8-K | 10.1 | 2/18/2015 |
| †10.83 | Tesoro Logistics LP 2015 Grant of Performance-Vesting Phantom Units and Tandem DERs Term Sheet (Employee performance-based awards granted in 2015) | 8-K | 10.2 | 2/18/2015 |
| †10.84 | Form of Tesoro Logistics LP 2011 Long-Term Incentive Plan Performance Phantom Unit Agreement (Employee performance-based awards granted in 2016) | 8-K | 10.1 | 2/11/2016 |
| †10.85 | Tesoro Logistics LP 2016 Grant of Performance-Vesting Phantom Units and Tandem DERs Term Sheet (Employee performance-based awards granted in 2016) | 8-K | 10.2 | 2/11/2016 |
| †10.86 | Amended and Restated QEP Midstream Partners, LP 2013 Long-Term Incentive Plan | 8-K | 10.1 | 7/23/2015 |
| †10.87 | Description of 2015 Incentive Compensation Program | 10-K | 10.15 | 2/24/2015 |
| †10.88 | Description of 2016 Incentive Compensation Program | 10-K | 10.20 | 2/25/2016 |
| †10.89 | Tesoro Logistics LP Non-Employee Director Compensation Program (2016) | 10-K | 10.21 | 2/25/2016 |

| Exhibit Number | Description of Exhibit | Incorporated by Reference (File No. 1-35143, unless otherwise indicated) Form | Exhibit | Filing Date |
|---|---|---|---|---|
| *†10.90 | Tesoro Logistics LP Non-Employee Director Compensation Program (2017) | | | |
| †10.91 | Amended and Restated Tesoro Corporation Executive Severance and Change in Control Plan effective May 1, 2013 | 10-Q | 10.5 | 8/4/2016 |
| †10.92 | Management Stability Agreement of Phillip M. Anderson | S-1 (File No. 333-171525) | 10.3 | 1/4/2011 |
| †10.93 | Management Stability Agreement of Don J. Sorenson | 10-K | 10.6 | 2/25/2016 |
| †10.94 | Waiver and Release of the Amended & Restated Management Stability Agreement of Don J. Sorenson | 10-Q | 10.6 | 8/4/2016 |
| †10.95 | Form of indemnification agreement between Tesoro Logistics GP, LLC and the independent members of its board of directors | 8-K | 10.1 | 12/15/2014 |
| †10.96 | Form of indemnification agreement between Tesoro Corporation and members of its management who may serve as directors or executive officers of Tesoro Logistics GP, LLC | 8-K | 10.3 | 8/4/2008 |
| *21.1 | Subsidiaries of the Company | | | |
| *23.1 | Consent of Independent Registered Public Accounting Firm (Ernst & Young LLP) | | | |
| *31.1 | Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | |
| *31.2 | Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | |
| *32.1 | Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | |
| *32.2 | Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | |
| **101.INS | XBRL Instance Document | | | |
| **101.SCH | XBRL Taxonomy Extension Schema Document | | | |
| **101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | | | |
| **101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | | | |
| **101.LAB | XBRL Taxonomy Extension Label Linkbase Document | | | |
| **101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | | |

* Filed herewith
** Submitted electronically herewith
† Compensatory plan or arrangement

Copies of exhibits filed as part of this Form 10-K may be obtained by unitholders of record at a charge of $0.15 per page, minimum $5.00 each request. Direct any inquiries to the Corporate Secretary, Tesoro Logistics LP, 19100 Ridgewood Parkway, San Antonio, Texas 78259-1828.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TESORO LOGISTICS LP**

By: Tesoro Logistics GP, LLC
Its General Partner

By: /s/ GREGORY J. GOFF
Gregory J. Goff
Chairman of the Board of Directors and Chief Executive Officer
(Principal Executive Officer)

Dated: February 21, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ GREGORY J. GOFF<br>Gregory J. Goff | Chairman of the Board of Directors and Chief Executive Officer<br>(Principal Executive Officer) | February 21, 2017 |
| /s/ STEVEN M. STERIN<br>Steven M. Sterin | Director, Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer) | February 21, 2017 |
| /s/ BLANE W. PEERY<br>Blane W. Peery | Vice President and Controller<br>(Principal Accounting Officer) | February 21, 2017 |
| /s/ PHILLIP M. ANDERSON<br>Phillip M. Anderson | Director and President | February 21, 2017 |
| /s/ RAYMOND J. BROMARK<br>Raymond J. Bromark | Director | February 21, 2017 |
| /s/ ROBERT W. GOLDMAN<br>Robert W. Goldman | Director | February 21, 2017 |
| /s/ JAMES H. LAMANNA<br>James H. Lamanna | Director | February 21, 2017 |
| /s/ THOMAS C. O'CONNOR<br>Thomas C. O'Connor | Director | February 21, 2017 |
| /s/ MICHAEL E. WILEY<br>Michael E. Wiley | Director | February 21, 2017 |

**Exhibit 2.4**

# CONTRIBUTION, CONVEYANCE AND ASSUMPTION AGREEMENT

This Contribution, Conveyance and Assumption Agreement (this "Agreement"), effective as of November 21, 2016 (the "Effective Date"), is by and among Tesoro Logistics LP, a Delaware limited partnership (the "Partnership"), Tesoro Logistics GP, LLC, a Delaware limited liability company and the general partner of the Partnership (the "General Partner"), Tesoro Logistics Operations LLC, a Delaware limited liability company (the "Operating Company"), Tesoro Corporation, a Delaware corporation ("Tesoro"), and Tesoro Refining & Marketing Company LLC, a Delaware limited liability company ("TRMC"). The above-named entities are sometimes referred to in this Agreement individually as a "Party" and collectively as the "Parties."

## RECITALS

**WHEREAS**, TRMC is the owner of approximately 2.6 million barrels of crude oil and other feedstock storage tankage and approximately 3.0 million barrels of refined product storage tankage located at TRMC's refinery near Martinez in Contra Costa County, California (the "Martinez Refinery"), together with all related equipment and ancillary facilities used for the operation thereof, and all permits and licenses related to such tankage, to the extent assignable and to the extent used in connection with the ownership and operation of the assets described above, which assets are listed in detail on Exhibit A-1 hereto (the "Tankage"), which is connected to the Avon Marine Terminal (as defined below) through the Avon Wharf Pipeway (as defined below);

**WHEREAS**, TRMC is also the owner of all of its leasehold interest in the Avon Marine Terminal Facility, a single berth dock that (i) serves as the main shipping and receiving point for the Martinez Refinery for the transfer of waterborne non-crude feedstocks, (ii) is the principal outbound marine delivery point for refined products, and (iii) is directly connected to the Martinez Refinery's refined products tankage (the "Avon Marine Terminal"); and

**WHEREAS**, TRMC desires to contribute the Assets (as defined below) to the General Partner, which the General Partner desires to contribute to the Partnership and the Partnership desires to contribute to the Operating Company, and concurrently with the contribution of the Assets, TRMC and the Operating Company desire to enter into the Contracts (as defined below), all on the terms and conditions set forth herein.

**NOW, THEREFORE**, in consideration of the mutual covenants, representations, warranties and agreements herein contained, the Parties hereto agree as follows:

## ARTICLE I
## DEFINITIONS

**Section 1.1** Capitalized terms used herein have the respective meanings ascribed to such terms below:

"Affiliates" has the meaning set forth in the Partnership Agreement.

"Agreement" has the meaning set forth in the introduction to this Agreement.

"Assets" means (i) the Tankage and (ii) the Avon Wharf Pipeway.

"Avon Marine Terminal" has the meaning set forth in the Recitals.

"Avon Marine Terminal Assets" means certain assets located at the Avon Marine Terminal, as further described in Exhibit A-2.

"Avon Marine Terminal Operating Agreement" means that certain Avon Marine Terminal Operating Agreement to be effective at the Effective Time by and between TRMC and the Operating Company pursuant to which the Operating Company will manage and operate the Avon Marine Terminal for TRMC on the terms and conditions included therein.

"Avon Marine Terminal Renovation" means each of the Avon Wharf Upgrade (MOTEMS) (AFE No. 077100030) and Pipeline Surge Protection Project (AFE No. 154100001) being undertaken by TRMC at the Avon Marine Terminal as of the Effective Date.

"Avon Marine Terminal Sublease Agreement" means that certain Sublease to be executed in accordance with Section 2.5 by and between the Operating Company and TRMC relating to the Avon Marine Terminal.

"Avon Marine Terminal Use and Throughput Agreement" or the "Avon MTUTA" means that certain Avon Marine Terminal Use and Throughput Agreement to be executed pursuant to Section 2.5 by and among the Operating Company, the General Partner, the Partnership and TRMC, pursuant to which the Operating Company will, effective as of the "Commencement Date" (as defined therein), manage and operate the Avon Marine Terminal.

"Avon Wharf Pipeway" means the three pipelines, a causeway and all ancillary equipment that connect Tract 3 (of the Tankage) to the Avon Marine Terminal, all as further described in Exhibit A-3, as well as all associated easements, permits and licenses relating to the Avon Wharf Pipeway.

"Bill of Sale" means that certain Bill of Sale, Assignment and Assumption effective as of the Effective Time, among TRMC, the General Partner, the Partnership and the Operating Company, with respect to the Assets.

"Cash Consideration" has the meaning set forth in Section 2.3(b)(i).

"CDFG" means the California Department of Fish and Game.

"Code" means the Internal Revenue Code of 1986, as amended.

"COFR" means the Certificate of Financial Responsibility issued by the CDFG in favor of the Operating Company with respect to oil spill contingency planning and financial responsibility with respect to operations in the State of California, including under the Avon Marine Terminal Sublease Agreement and Avon MTUTA.

"Common Unit" means a common unit representing a limited partner interest in the Partnership having the rights set forth in the Partnership Agreement.

"Conflicts Committee" has the meaning set forth in the Partnership Agreement.

"Contracts" means (i) the License Agreement, (ii) the Martinez Storage Services Agreement and (iii) the Avon Marine Terminal Operating Agreement.

"Credit Facility" means that certain Senior Secured Revolving Credit Agreement dated as of January 29, 2016, by and among the Partnership, as borrower, Bank of America, N.A., as administrative agent, and the other parties thereto.

"Debt-Financed Cash Consideration" has the meaning set forth in Section 2.3(c).

"Effective Date" has the meaning set forth in the introduction to this Agreement.

"Effective Time" means 12:01 a.m. Central Time on the Effective Date.

"Equity Consideration" has the meaning set forth in Section 2.3(b)(ii).

"Excluded Assets and Liabilities" means those certain assets and properties (including any and all petroleum and hydrocarbon inventory) and certain responsibilities, coverages and liabilities that might otherwise be considered as part of the Assets or the Contracts but are being retained by TRMC and are not being contributed, transferred or assumed to or by the General Partner, the Partnership or the Operating Company as part of the transactions contemplated by this Agreement, as set forth on Exhibit C to this Agreement.

"General Partner" has the meaning set forth in the introduction to this Agreement.

"General Partner Contribution" has the meaning set forth in Section 2.3(a).

"General Partner Unit" means a general partner unit representing a general partner interest in the Partnership having the rights set forth in the Partnership Agreement.

"Intended Tax Treatment" has the meaning set forth in Section 4.2(a).

"License Agreement" means the License Agreement with respect to the Tankage and the Avon Wharf Pipeway between TRMC and the Operating Company.

"Martinez Refinery" has the meaning set forth in the Recitals.

"Martinez Storage Services Agreement" means the Martinez Storage Services Agreement with respect to the Tankage among TRMC, the Operating Company, the General Partner and the Partnership.

"Master Lease" means that General Lease – Industrial Use, dated January 1, 2015, between TRMC and the State of California, acting by and through the California State Lands Commission,

covering the property in Contra Costa County, California described in Exhibit A to the Master Lease, as such lease (and the Exhibits thereto) exists as of the Effective Date.

"Material Adverse Effect" has the meaning set forth in Section 3.5(a).

"Omnibus Agreement" means that certain Third Amended and Restated Omnibus Agreement dated as of July 1, 2014, among Tesoro, TRMC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, the General Partner and the Partnership, as such agreement (and the Schedules thereto) may be amended, supplemented or restated from time to time.

"Operating Company" has the meaning set forth in the introduction to this Agreement.

"Partnership" has the meaning set forth in the introduction to this Agreement.

"Partnership Agreement" means the First Amended and Restated Agreement of Limited Partnership of the Partnership, dated as of April 26, 2011, as such agreement may be amended, supplemented or restated from time to time.

"Partnership Contribution" has the meaning set forth in Section 2.3.

"Partnership Group" has the meaning set forth in the Omnibus Agreement.

"Party" or "Parties" have the meanings given to those terms in the introduction to this Agreement.

"Permitted Liens" has the meaning set forth in Section 2.1(a).

"Purchase Price" means $400,000,000.

"Real Property Assets" means the real property assets underlying the Tankage.

"Rescission Event" has the meaning set forth in Section 5.1.

"Secondment and Logistics Services Agreement" means that certain Secondment and Logistics Services Agreement dated as of July 1, 2014, as may be amended, modified or supplemented from time to time, among Tesoro, TRMC, the General Partner, the Partnership, Tesoro Logistics Pipeline LLC, Tesoro High Plains Pipeline Company LLC, Tesoro Alaska Company LLC, QEP Field Services, LLC, QEP Midstream Partners Operating, LLC, QEP Midstream Partners GP, LLC and QEPM Gathering I, LLC.

"Tankage" has the meaning set forth in the Recitals.

"Tesoro" has the meaning set forth in the introduction to this Agreement.

"Transaction Documents" has the meaning set forth in Section 3.4(a).

"Treasury Regulations" means the regulations (including temporary regulations) promulgated by the United States Department of the Treasury pursuant to and in respect of provisions

of the Code. All references herein to sections of the Treasury Regulations shall include any corresponding provision or provisions of succeeding, similar or substitute, temporary or final Treasury Regulations.

"TRMC" has the meaning set forth in the introduction to this Agreement.

"TRMC Contribution" has the meaning set forth in Section 2.1(a).

## ARTICLE II
## CONTRIBUTIONS AND ACKNOWLEDGEMENTS

**Section 2.1 Conveyance by TRMC to the General Partner**.

(a) Effective as of immediately prior to the Effective Time, TRMC hereby assigns, transfers, contributes, grants, bargains, conveys, sets over and delivers to the General Partner, its successors and its assigns, for its and their own use forever, the entire right, title, interest, responsibilities, coverages and liabilities of TRMC in and to the Assets, including any responsibilities, coverages and liabilities under any permit or license included in the Assets, free and clear of all liens and encumbrances of any kind or nature, other than as set forth on Exhibit B to this Agreement (the "Permitted Liens"). In addition, concurrently with the contribution of the Assets, TRMC is also executing and delivering the Contracts. The contribution of the Assets and execution and delivery of the Contracts described in this Section 2.1(a) shall be referred to in this Agreement as the "TRMC Contribution."

(b) TRMC makes the TRMC Contribution in exchange for the issuance as of the Effective Date of an additional membership interest in the General Partner equal to the percentage increase in the capital of the General Partner based on the value of the TRMC Contribution as a contribution to the capital of the General Partner.

(c) The General Partner hereby accepts the TRMC Contribution as a contribution to the capital of the General Partner.

(d) The Parties hereby acknowledge that the Excluded Assets and Liabilities are being retained by TRMC and are not being contributed or transferred as part of the TRMC Contribution.

**Section 2.2 Conveyance by the General Partner to the Partnership**.

(a) Effective as of the Effective Time, the General Partner hereby assigns, transfers, contributes, grants, bargains, conveys, sets over and delivers to the Partnership, its successors and its assigns, for its and their own use forever, the entire right, title, interest, responsibilities, coverages and liabilities of the General Partner in and to the Assets, including any responsibilities, coverages and liabilities under any permit or license included in the Assets, free and clear of all liens and encumbrances of any kind or nature, other than the Permitted Liens. In addition, concurrently with the contribution of the Assets, TRMC is also executing and delivering

the Contracts. The contribution of the Assets and execution and delivery of the Contracts described in this Section 2.2(a) shall be referred to in this Agreement as the "General Partner Contribution."

(b) The General Partner shall make the General Partner Contribution in exchange for the distribution or issuance by the Partnership of the following as of the Effective Time in consideration of the conveyance and transfer of the Assets:

(i) a distribution of cash equal to ninety percent (90%) of the value of the Purchase Price (the "Cash Consideration"); and

(ii) the issuance to the General Partner of such number of General Partner Units and Common Units with an aggregate value equal to ten percent (10%) of the Purchase Price (the "Equity Consideration"):

(1) which number of General Partner Units, rounded up to the next highest number of whole units, shall be the amount having an aggregate dollar value of the Equity Consideration necessary to restore and maintain the General Partner's two percent (2%) general partner interest in the Partnership; and

(2) which number of Common Units, rounded down to the next lowest number of whole units, shall be the amount equal to (A) the remainder of (I) the amount of the Equity Consideration, less (II) an amount equal to the value of the General Partner Units issued pursuant to Section 2.2(b)(ii)(1), divided by (B) the average closing price of the Common Units for the last ten (10) trading days prior to the Effective Date.

(c) To effect the distribution of the Cash Consideration, the Partnership shall borrow an amount equal to the Cash Consideration (the "Debt-Financed Cash Consideration") under indebtedness for which no partner of the Partnership or any related person other than Tesoro bears the economic risk of loss (as defined by Treasury Regulations Section 1.752-2) and the Partnership shall cause the proceeds of such indebtedness to be wire transferred to the General Partner on behalf of the Partnership directly from the applicable lender to an account designated by the General Partner.

(d) After the distribution of the Cash Consideration to the General Partner by the Partnership, the General Partner shall provide a loan of up to that amount to Tesoro and Tesoro shall execute and deliver a ten-year promissory note in favor of the General Partner to evidence the funds loaned by the General Partner to Tesoro.

(e) The Partnership hereby accepts the General Partner Contribution as a contribution to the capital of the Partnership.

**Section 2.3** **Conveyance by the Partnership to the Operating Company**. Effective immediately after the General Partner Contribution, the Partnership hereby assigns, transfers, contributes, grants, bargains, conveys, sets over and delivers to the Operating Company, its

successors and its assigns, for its and their own use forever, the entire right, title, interest, responsibilities, coverages and liabilities of the Partnership in and to the Assets, including any responsibilities, coverages and liabilities under any permit or license included in the Assets, free and clear of all liens and encumbrances of any kind or nature, other than the Permitted Liens. In addition, concurrently with the contribution of the Assets, TRMC is also executing and delivering the Contracts. The contribution of the Assets and execution and delivery of the Contracts described in this Section 2.3 shall be referred to in this Agreement as the "Partnership Contribution." The Partnership hereby makes the Partnership Contribution as a capital contribution to the capital of the Operating Company and the Operating Company hereby accepts the Partnership Contribution as a contribution to the capital of the Operating Company.

**Section 2.4 Actions and Deliveries on the Effective Date**. The Parties acknowledge that the following actions and deliveries have occurred:

(a) receipt by the Parties of all permits, consents, approvals, authorizations, orders, registrations, filings or qualifications of or with any court, governmental agency or body having jurisdiction over the Parties required in connection with the execution, delivery and performance of the Transaction Documents;

(b) the execution and delivery by the respective parties thereto of the following documents:

(i) the Bill of Sale, substantially in the form attached hereto as Exhibit D, pursuant to which TRMC, the General Partner and the Partnership assign and convey the Assets;

(ii) the Martinez Storage Services Agreement, substantially in the form attached hereto as Exhibit E, and the service order related thereto;

(iii) the License Agreement, substantially in the form attached hereto as Exhibit F, pursuant to which TRMC grants the Operating Company a license to operate and maintain the Assets;

(iv) the Avon Marine Terminal Operating Agreement, substantially in the form attached hereto as Exhibit G;

(v) Amendment to the Secondment and Logistics Services Agreement, substantially in the form attached hereto as Exhibit H-1, and the service orders related thereto, substantially in the form attached hereto as Exhibit H-2;

(vi) Fourth Amended and Restated Schedules to the Omnibus Agreement among Tesoro, TRMC, Tesoro Companies, Inc., Tesoro Alaska Company LLC, the General Partner and the Partnership, substantially in the form attached hereto as Exhibit I;

(vii) Amendment No. 5 to the Second Amended and Restated Limited Liability Company Agreement of the General Partner among the General Partner, Tesoro, TRMC and Tesoro Alaska Company LLC, substantially in the form attached hereto as Exhibit J;

(viii) a ten-year promissory note, substantially in the form attached hereto as Exhibit K, by Tesoro in favor of the General Partner to evidence the funds loaned by the General Partner to Tesoro pursuant to Section 2.2(d);

(ix) a debt indemnification agreement, substantially in the form attached hereto as Exhibit L;

(x) a closing escrow agreement, substantially in the form attached hereto as Exhibit M, to effect the closing into escrow with McGuireWoods LLP of all the Transaction Documents related to the contribution of the Assets; and

(xi) all other documents and instruments necessary or appropriate to convey the Assets to the Operating Company.

(c) the Conflicts Committee of the General Partner has received a fairness opinion by Evercore Group, L.L.C., the financial advisor to the Conflicts Committee.

**Section 2.5 Commencement of Avon Marine Terminal Sublease Agreement and Avon MTUTA; Conveyance of Avon Marine Terminal Assets; Related Actions and Deliveries**.

(a) TRMC agrees to use its reasonable commercial efforts (i) to complete the Avon Marine Terminal Renovations in accordance with Schedule VI to the Omnibus Agreement and (ii) to assist the Operating Company in obtaining the COFR from the CDFG as required under the Avon Marine Terminal Sublease Agreement and the Avon MTUTA as well as any other written consents necessary for the Operating Company and TRMC to enter into the Avon Marine Terminal Sublease Agreement and the Avon MTUTA and for TRMC to convey the Avon Marine Terminal Assets to the Operating Company. TRMC shall cooperate with the Operating Company in such manner as may be reasonably requested in connection therewith, including without limitation, active participation in visits to and meetings, discussions and negotiations with all persons or entities with the authority to grant or withhold consent.

(b) During the period before the Avon Marine Terminal Sublease Agreement and the Avon MTUTA become effective, the Operating Company shall provide operating services with respect to the Avon Marine Terminal pursuant to the Avon Marine Terminal Operating Agreement and in such instance, TRMC and the Operating Company will use their reasonable commercial efforts to take such actions to effectively grant the Operating Company the economic benefits of, and impose upon the Operating Company the economic burdens of, the Avon Marine Terminal, subject to and in accordance with, the Avon Marine Terminal Operating Agreement.

(c) In the event that the COFR has been obtained prior to the completion of the Avon Marine Terminal Renovations, the Operating Company shall have the right, but not the

obligation, to require upon five (5) days' written notice that TRMC execute and deliver the Avon Marine Terminal Sublease Agreement, substantially in the form attached hereto as Exhibit N, and the Avon MTUTA, substantially in the form attached hereto as Exhibit O, and to cause the conveyance of the Avon Marine Terminal Assets pursuant to Section 2.5(f) and the terms of the Avon Marine Terminal Sublease Agreement.

(d) If the Operating Company has not exercised its rights under Section 2.5(c) above, then within ten (10) business days or such other time as mutually agreed upon after the completion of the Avon Marine Terminal Renovations and the issuance of the COFR, the Parties will take any and all actions necessary or advisable to execute and deliver the Avon Marine Terminal Sublease Agreement and the Avon MTUTA, and to complete the conveyance and transfer of the Avon Marine Terminal Assets pursuant to Section 2.5(f) hereof and the terms of the Avon Marine Terminal Sublease Agreement.

(e) Prior to the execution and delivery of the Avon Marine Terminal Sublease Agreement and the Avon MTUTA and the conveyance of the Avon Marine Terminal Assets pursuant to the terms of the Avon Marine Terminal Sublease Agreement, TRMC shall to the extent not otherwise provided in the Avon Marine Terminal Operating Agreement:

(i) file on a timely basis all notices, reports or other filings necessary or required for the continuing operation of the Avon Marine Terminal to be filed with or reported to any governmental authority;

(ii) file on a timely basis all complete and correct applications or other documents necessary to maintain, renew or extend any permit, variance or any other approval required by any governmental authority necessary or required for the continuing operation of the Avon Marine Terminal whether or not such approval would expire before or after the execution and delivery of the Avon Marine Terminal Sublease Agreement;

(iii) not permit any lien or other encumbrance to be imposed on the Avon Marine Terminal Assets, other than Permitted Liens;

(iv) not sell, lease or otherwise dispose of any Avon Marine Terminal Asset; and

(v) not agree to do any of the actions set forth in subsections (iii) and (iv) above.

(f) At the time of the conveyance of the Avon Marine Terminal Assets pursuant to the terms of the Avon Marine Terminal Sublease Agreement:

(i) the Parties shall reaffirm the representations and warranties set forth in ARTICLE III with respect to the Avon Marine Terminal and the Avon Marine Terminal Assets and will confirm receipt by the Parties of all permits, consents, approvals, authorizations, orders, registrations, filings or qualifications of or with

any court, governmental agency or body having jurisdiction over the Parties required in connection with the conveyance of the Avon Marine Terminal Assets and/or execution, delivery or performance of the Avon Marine Terminal Sublease Agreement or the Avon MTUTA;

(ii) the applicable Parties shall execute and deliver:

(1) the Avon Marine Terminal Sublease Agreement, substantially in the form attached hereto as Exhibit N; and

(2) the Avon Marine Terminal Use and Throughput Agreement, substantially in the form attached hereto as Exhibit O; and

(iii) the following contributions, conveyances and transfers will occur in the following order:

(1) TRMC shall assign, transfer, contribute, grant, bargain, convey, set over and deliver to the General Partner, its successor and its assigns, for its and their own use forever, TRMC's entire right, title, interest, responsibilities, coverages and liabilities in and to the Avon Marine Terminal Assets, including any responsibilities, coverages and liabilities under any permit or license included in the Avon Marine Terminal Assets, free and clear of all liens and encumbrances of any kind or nature, other than the Permitted Liens. This contribution shall be made for no additional consideration and the General Partner shall accept the Avon Marine Terminal Assets from TRMC as a contribution to the capital of the General Partner.

(2) The General Partner shall then assign, transfer, contribute, grant, bargain, convey, set over and deliver to the Partnership, its successor and its assigns, for its and their own use forever, the General Partner's entire right, title, interest, responsibilities, coverages and liabilities in and to the Avon Marine Terminal Assets, including any responsibilities, coverages and liabilities under any permit or license included in the Avon Marine Terminal Assets, free and clear of all liens and encumbrances of any kind or nature, other than the Permitted Liens. This contribution shall be made for no additional consideration and the Partnership shall accept the Avon Marine Terminal Assets from the General Partner as a contribution to the capital of the Partnership.

(3) The Partnership shall assign, transfer, contribute, grant, bargain, convey, set over and deliver to the Operating Company, its successor and its assigns, for its and their own use forever, the Partnership's entire right, title, interest, responsibilities, coverages and liabilities in and to the Avon Marine Terminal Assets, including any responsibilities, coverages and liabilities under any permit or license included in the Avon Marine Terminal Assets, free and clear of all liens and encumbrances of any kind or nature,

other than the Permitted Liens. This contribution shall be made for no additional consideration and the Operating Company shall accept the Avon Marine Terminal Assets from the Partnership as a contribution to the capital of the Operating Company.

(4) TRMC, the General Partner, the Partnership and the Operating Company will execute and deliver such additional documents, instruments and certifications necessary or advisable in connection with the conveyance of the Avon Marine Terminal Assets pursuant to this Section 2.5 and the Avon Marine Terminal Sublease Agreement.

## ARTICLE III
## REPRESENTATIONS

**Section 3.1 Representations of TRMC**. TRMC hereby represents and warrants to the General Partner, the Partnership and the Operating Company as follows:

(a) The Tankage, the Avon Wharf Pipeway and the Avon Marine Terminal are each in good working condition, suitable for the purposes for which they are being used in accordance with accepted industry standards and all applicable laws and regulations, subject, in the case of the Avon Marine Terminal, to the completion of the Avon Marine Terminal Renovation.

(b) TRMC has title to each of the Tankage, the Avon Wharf Pipeway and the Avon Marine Terminal Assets free and clear of all liens and encumbrances of any kind or nature, other than the Permitted Liens. TRMC has title to each of the Tankage, the Avon Wharf Pipeway, the Real Property Assets and the Avon Marine Terminal Assets that is sufficient to operate each such Asset in accordance with its intended and historical use, subject to all recorded matters and all physical conditions in existence.

(c) To TRMC's knowledge, after reasonable investigation, there are no terms in any agreements included in the Assets, the Contracts or the Avon Marine Terminal Assets that would materially impair the rights granted to the General Partner and Partnership Group pursuant to the transactions contemplated by this Agreement.

(d) TRMC has previously delivered a true, correct and complete copy of the Master Lease (and any amendments to the Master Lease) to the General Partner, the Partnership and the Operating Company. The Master Lease is in full force and effect and no defaults exist nor do any conditions exist that may result in any default under the Master Lease.

**Section 3.2 Representation of the General Partner**. The General Partner hereby represents and warrants to TRMC that the General Partner has full power and authority to act as general partner of the Partnership in all material respects.

**Section 3.3 Representation of the Partnership**. The Partnership hereby represents and warrants to the General Partner and Tesoro that the Common Units and the General Partner Units of the Partnership issued to the General Partner pursuant to Section 2.2(b) have been duly authorized

for issuance and sale to the General Partner and, when issued and delivered by the Partnership pursuant to this Agreement against payment of the consideration set forth herein, will be validly issued and fully paid (to the extent required under the Partnership Agreement) and nonassessable (except as such nonassessability may be affected by matters described in Sections 17-607 and 17-804 of the Delaware Limited Partnership Act).

**Section 3.4** **Representations of the Parties**. Each Party represents and warrants, severally as to only itself and not jointly, to the other Parties as follows:

(a) The applicable Party has been duly formed or incorporated and is validly existing as a limited partnership, limited liability company or corporation, as applicable, in good standing under the laws of its jurisdiction of organization with full power and authority to enter into and perform its obligations under this Agreement and the other documents contemplated herein (the "Transaction Documents") to which it is a party, to own or lease and to operate its properties currently owned or leased or to be owned or leased and to conduct its business. The applicable Party is duly qualified to do business as a foreign corporation, limited liability company or limited partnership, as applicable, and is in good standing under the laws of each jurisdiction which requires such qualification, except where the failure to be so qualified or registered would not have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties, taken as a whole, whether or not arising from transactions in the ordinary course of business, of such Party (a "Material Adverse Effect").

(b) The applicable Party has all requisite power and authority to execute and deliver the Transaction Documents to which it is a party and perform its respective obligations thereunder. All corporate, partnership and limited liability company action, as the case may be, required to be taken by the applicable Party or any of its stockholders, members or partners for the execution and delivery by the applicable Party of the Transaction Documents to which it is a party and the consummation of the transactions contemplated thereby has been validly taken.

(c) For the applicable Party, each of the Transaction Documents to which it is a party is a valid and legally binding agreement of such Party, enforceable against such Party in accordance with its terms, except (i) as the enforceability thereof may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and (ii) that the indemnity, contribution and exoneration provisions contained in any of the Transaction Documents may be limited by applicable laws and public policy.

(d) Neither the execution, delivery and performance of the Transaction Documents by the applicable Party that is a party thereto nor the consummation of the transactions contemplated by the Transaction Documents conflict or will conflict with, or result or will result in, a breach or violation of or a default under (or an event that, with notice or lapse of time or both would constitute such an event), or imposition of any lien, charge or encumbrance upon any property or assets of any of the applicable Party pursuant to (i) the partnership agreement, limited liability company agreement, certificate of limited partnership, certificate of formation or conversion, certificate or articles of incorporation, bylaws or other constituent document of the applicable Party,

(ii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which the applicable Party is a party or bound or to which its property is subject or (iii) any statute, law, rule, regulation, judgment, order or decree applicable to the applicable Party of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over such Party or any of its properties in a proceeding to which it or its property is a party, except in the case of clause (ii), liens, charges or encumbrances arising under security documents for the collateral pledged under such Party's applicable credit agreements and except in the case of clause (iii), where such breach or violation would not reasonably be expected to have a Material Adverse Effect.

(e) No permit, consent, approval, authorization, order, registration, filing or qualification of or with any court, governmental agency or body having jurisdiction over the applicable Party or any of its properties or assets is required in connection with the execution, delivery and performance of the Transaction Documents by the applicable Party, the execution, delivery and performance by the applicable Party that is a party thereto of its respective obligations under the Transaction Documents or the consummation of the transactions contemplated by the Transaction Documents other than (i) any filing related to the sale of the Common Units under this Agreement with federal or state securities laws authorities, (ii) consents that have been obtained and (iii) consents where the failure to obtain such consent would not reasonably be expected to have a Material Adverse Effect.

(f) No action, suit, proceeding, inquiry or investigation by or before any court or governmental or other regulatory or administrative agency, authority or body or any arbitrator involving the applicable Party or its property is pending or, to the knowledge of the applicable Party, threatened or contemplated that (i) would individually or in the aggregate reasonably be expected to have a material adverse effect on the performance of the Transaction Documents or the consummation of any of the transactions contemplated therein, or (ii) would individually or in the aggregate reasonably be expected to have a Material Adverse Effect.

## ARTICLE IV
## COVENANTS

**Section 4.1 Further Assurances**.

(a) From time to time after the Effective Time, and without any further consideration, the Parties agree to execute, acknowledge and deliver all such additional deeds, assignments, bills of sale, conveyances, instruments, notices, releases, acquittances and other documents, and to do all such other acts and things, all in accordance with applicable law, as may be necessary or appropriate (i) more fully to assure that the applicable Parties own all of the properties, rights, titles, interests, estates, remedies, powers and privileges granted by this Agreement, or which are intended to be so granted, (ii) more fully and effectively to vest in the applicable Parties and their respective successors and assigns beneficial and record title to the interests contributed and assigned by this Agreement or intended to be so contributed and assigned (including any actions required to effect the assignment and conveyance of the Assets, the Contracts

and the Avon Marine Terminal Assets as contemplated herein), and (iii) more fully and effectively to carry out the purposes and intent of this Agreement.

(b) To the extent any permits related to the Assets or the Contracts may not be assigned or transferred without the consent of a third party that has not been obtained at the Effective Time despite the exercise by TRMC of its reasonable best efforts, this Agreement shall not constitute an agreement to assign or transfer such permit if an attempted assignment or transfer would constitute a breach thereof or be unlawful. In that case, TRMC, to the maximum extent permitted by law, (a) shall act after the Effective Time as the Operating Company's agent to obtain for the Operating Company the benefits thereunder, and (b) shall cooperate, to the maximum extent permitted by applicable law, with the Operating Company in any other reasonable arrangement designed to provide those benefits to the Operating Company, including by agreeing to remain liable under any applicable permit. Nothing contained in this Section 4.1(b) shall relieve TRMC of its obligations under any other provisions of this Agreement.

**Section 4.2 Tax Covenants**.

(a) The Parties intend that for U.S. federal income tax purposes (the "Intended Tax Treatment"):

(i) the TRMC Contribution shall be disregarded as a result of TRMC and the General Partner each being disregarded as an entity separate from Tesoro for U.S. federal income tax purposes;

(ii) the General Partner Contribution shall be treated as a contribution by Tesoro (as a result of the General Partner being disregarded as an entity separate from Tesoro for U.S. federal income tax purposes) pursuant to Section 721(a) of the Code, subject to Section 707 of the Code, with the distribution of the Debt-Financed Cash Consideration qualifying as a "debt-financed transfer" under Treasury Regulations Section 1.707-5(b);

(iii) any Cash Consideration in excess of the amount properly treated as a "debt-financed transfer" shall be treated (1) as a reimbursement of preformation expenditures within the meaning of Treasury Regulations Sections 1.707-4(d) to the greatest extent applicable, and (2) in a transaction subject to treatment under Section 707(a) of the Code, and its implementing Treasury Regulations, as in part a sale, and in part a contribution, by Tesoro of the Assets; and

(iv) the Avon Marine Terminal Operating Agreement is intended for U.S. federal income tax purposes (and, where applicable, state and local income tax purposes) to be treated as a contribution of the Avon Marine Terminal Assets by Tesoro (as a result of TRMC and General Partner each being disregarded as entities separate from Tesoro) to the Partnership (as a result of Operating Company being disregarded as an entity separate from Partnership) in exchange for the applicable portion of the distribution and issuance described in Section 2.2(b).

(b) Except with the prior written consent of the General Partner or as otherwise required by applicable law following a final determination by the U.S. Internal Revenue Service or a governmental authority with competent jurisdiction, the Parties agree to file all tax returns and otherwise act at all times in a manner consistent with the Intended Tax Treatment, including disclosing the distribution of the Debt-Financed Cash Consideration in accordance with the requirements of Treasury Regulations Section 1.707-3(c)(2).

## ARTICLE V
## RESCISSION OF ASSETS

**Section 5.1 Rescission**. A "Rescission Event" with respect to the Assets means (a) the determination by any court, regulatory body, administrative agency, governmental body, arbitrator or other authority agency or regulatory authority that the TRMC Contribution (i) is void or invalid or (ii) requires a governmental approval with respect to the transfer of the Tankage or the Avon Wharf Pipeway which was not obtained by TRMC prior to such determination, and, in case of either clause (i) or clause (ii), which TRMC fails to cure within twenty-four (24) months following such determination; or (b) the revocation, termination or TRMC's material breach of the License Agreement.

**Section 5.2 Notice of Rescission**. Upon the occurrence of a Rescission Event that has not been cured, regardless of the time period set forth in Section 5.1(a), the Operating Company shall have the right, but not the obligation, to rescind the Partnership Contribution, the General Partner Contribution and the TRMC Contribution by providing written notice to TRMC.

**Section 5.3 Effect of Rescission**. Upon receipt by TRMC of the Operating Company's written notice of rescission under Section 5.2:

(a) The General Partner will cause the Partnership to engage in a process to determine the fair market value of the Assets as of the date of the notice of rescission using the process for the determination of fair market value set forth in Section 2.3 of the Omnibus Agreement (with the notice of rescission delivered pursuant to Section 5.2 hereof triggering the time periods relating to such process under Section 2.3 of the Omnibus Agreement). The amount determined under Section 2.3 of the Omnibus Agreement will be the "Rescission Amount".

(b) Within 10 days after the determination of the Rescission Amount, (i) the General Partner will repay a portion of the purchase price with to the respect to the Assets previously paid pursuant to Section 2.2(b) equal to the Rescission Amount and (ii) Tesoro will repay the loan specified in Section 2.2(d) to the General Partner to the extent the consideration is repaid pursuant to Section 5.3(b)(i).

(c) The Parties shall file any documents or instruments necessary or appropriate with federal, state or local governmental authorities to cancel the transactions contemplated by this Agreement related to the Assets and the Contracts subject to the Rescission Event, including, but not limited to, conveyance documents related to the Assets and the Contracts subject to the Rescission Event to nullify the transactions that occurred on the Effective Date.

(d) The Parties shall amend or terminate, as applicable, and shall cause all their Affiliates to amend or terminate, as applicable, any agreements, including the License Agreement and the Martinez Storage Services Agreement (or portions of inter-company agreements), that were entered into or amended in connection with the transactions contemplated in this Agreement with respect to the Assets to be as such agreements existed prior to the Effective Date.

(e) Notwithstanding the foregoing in this Section 5.3, (i) the Common Units and General Partner Units issued pursuant to Section 2.2(b) shall remain outstanding and (ii) any indemnities that existed in any applicable agreement related to the Tankage and the Avon Wharf Pipeway prior to the Effective Time and before the Operating Company's ownership and operation of such assets for the period between Effective Time and the date of rescission will survive the rescission.

(f) Any revenues earned and expenses incurred by any Party related to the Assets from the Effective Time through the date of rescission shall not be refunded or reimbursed.

(g) Upon the occurrence of a Rescission Event, the Parties agree to amend the Avon Marine Terminal Use and Throughput Agreement, as necessary or appropriate, to reflect the occurrence of such Rescission Event.

## ARTICLE VI
## MISCELLANEOUS

**Section 6.1** **Costs**. Each Party shall pay its own costs and expenses with respect to the transactions contemplated by this Agreement; except as follows:

(a) the Partnership and TRMC shall each pay one-half of (i) the sales, use and similar transfer taxes arising out of the contributions, conveyances and deliveries to be made under ARTICLE II, (ii) all documentary, filing, recording, transfer, deed and conveyance taxes and fees required in connection therewith, (iii) legal fees and costs of McGuireWoods LLP, Norton Rose Fulbright US LLP and Pillsbury Winthrop Shaw Pittman LLP, and (iv) any other customary closing costs associated with the contributions of the Assets; and

(b) the Partnership shall pay all of the costs and expenses of the conflicts committee of the board of directors of the General Partner, including, but not limited to, the advisory and legal fees and costs of Andrews Kurth LLP and Evercore Group L.L.C.

**Section 6.2** **Headings; References; Interpretation**. All Article and Section headings in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any of the provisions hereof. The words "hereof," "herein" and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole, including, without limitation, all Schedules and Exhibits attached hereto, and not to any particular provision of this Agreement. All references herein to Articles, Sections, Schedules and Exhibits shall, unless the context requires a different construction, be deemed to be references to the Articles and Sections of this Agreement and the Schedules and Exhibits attached hereto, and all such Schedules and Exhibits attached hereto are hereby incorporated herein and made a part hereof for

all purposes. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders, and the singular shall include the plural and vice versa. The use herein of the word "including" following any general statement, term or matter shall not be construed to limit such statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters, whether or not non-limiting language (such as "without limitation," "but not limited to" or words of similar import) is used with reference thereto, but rather shall be deemed to refer to all other items or matters that could reasonably fall within the broadest possible scope of such general statement, term or matter.

**Section 6.3** **Successors and Assigns**. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns.

**Section 6.4** **No Third Party Rights**. The provisions of this Agreement are intended to bind the Parties as to each other and are not intended to and do not create rights in any other person or confer upon any other person any benefits, rights or remedies, and no person is or is intended to be a third party beneficiary of any of the provisions of this Agreement.

**Section 6.5** **Counterparts**. This Agreement may be executed in any number of counterparts (including facsimile or .pdf copies) with the same effect as if all Parties had signed the same document. All counterparts shall be construed together and shall constitute one and the same instrument.

**Section 6.6** **Applicable Law; Forum, Venue and Jurisdiction**. This Agreement shall be construed in accordance with and governed by the laws of the State of Texas, without regard to the principles of conflicts of law. Each of the Parties (a) irrevocably agrees that any claims, suits, actions or proceedings arising out of or relating in any way to this Agreement shall be exclusively brought in any federal court of competent jurisdiction situated in the United States District Court for the Western District of Texas, San Antonio Division, or if such federal court declines to exercise or does not have jurisdiction, in the district court of Bexar County, Texas, in each case regardless of whether such claims, suits, actions or proceedings sound in contract, tort, fraud or otherwise, are based on common law, statutory, equitable, legal or other grounds, or are derivative or direct claims, (b) irrevocably submits to the exclusive jurisdiction of the United States District Court for the Western District of Texas, San Antonio Division, or if such federal court declines to exercise or does not have jurisdiction, of the district court of Bexar County, Texas in connection with any such claim, suit, action or proceeding, (c) agrees not to, and waives any right to, assert in any such claim, suit, action or proceeding that (i) it is not personally subject to the jurisdiction of the United States District Court for the Western District of Texas, San Antonio Division, or the district court of Bexar County, Texas, or of any other court to which proceedings in such courts may be appealed, (ii) such claim, suit, action or proceeding is brought in an inconvenient forum, or (iii) the venue of such claim, suit, action or proceeding is improper, (d) expressly waives any requirement for the posting of a bond by a party bringing such claim, suit, action or proceeding and (e) consents to process being served in any such claim, suit, action or proceeding by mailing, certified mail, return receipt requested, a copy thereof to such party at the address in effect for notices hereunder or by personal service within or without the State of Texas, and agrees that service in such forms shall constitute

good and sufficient service of process and notice thereof; provided, however, that nothing in clause (e) hereof shall affect or limit any right to serve process in any other manner permitted by law.

**Section 6.7** **Severability**. If any of the provisions of this Agreement are held by any court of competent jurisdiction to contravene, or to be invalid under, the laws of any political body having jurisdiction over the subject matter hereof, such contravention or invalidity shall not invalidate the entire Agreement. Instead, this Agreement shall be construed as if it did not contain the particular provision or provisions held to be invalid and an equitable adjustment shall be made and necessary provision added so as to give effect to the intention of the Parties as expressed in this Agreement at the time of execution of this Agreement.

**Section 6.8** **Amendment or Modification**. This Agreement may be amended or modified from time to time only by the written agreement of all the Parties. Each such instrument shall be reduced to writing and shall be designated on its face as an amendment to this Agreement. Notwithstanding anything in the foregoing to the contrary, any amendment executed by the Partnership or any of its subsidiaries shall not be effective unless and until the execution of such amendment has been approved by the Conflicts Committee.

**Section 6.9** **Integration**. This Agreement, together with the Schedules and Exhibits referenced herein, constitutes the entire agreement among the Parties pertaining to the subject matter hereof and supersedes all prior agreements and understandings of the Parties in connection therewith.

**Section 6.10** **Specific Performance**. The Parties agree that money damages may not be a sufficient remedy for any breach of this Agreement and that in addition to any other remedy available at law or equity, the Parties shall be entitled to seek specific performance and injunctive or other equitable relief as a remedy for any Party's breach of this Agreement. The Parties agree that no bond shall be required for any injunctive relief in connection with a breach of this Agreement.

**Section 6.11** **Deed; Bill of Sale; Assignment**. To the extent required and permitted by applicable law, this Agreement shall also constitute a "deed," "bill of sale" or "assignment" of the Assets and interests referenced herein. For the avoidance of doubt, the conveyance of the Assets from TRMC, the General Partner or the Partnership to the General Partner, the Partnership or the Operating Company, all as applicable, is not intended to be treated as a sale for tax or any other purposes.

**Section 6.12** **Notice**. All notices or requests or consents provided for by, or permitted to be given pursuant to, this Agreement must be in writing and must be given by depositing same in the United States mail, addressed to the person to be notified, postpaid, and registered or certified with return receipt requested or by delivering such notice in person or by facsimile to such Party. Notice given by personal delivery or mail shall be effective upon actual receipt. Notice given by facsimile shall be effective upon actual receipt if received during the recipient's normal business hours or at the beginning of the recipient's next business day after receipt if not received during the recipient's normal business hours. All notices to be sent to a Party pursuant to this Agreement shall be sent to or made at the address set forth below or at such other address as such Party may stipulate to the other Parties in the manner provided in this Section 6.12.

If to Tesoro or TRMC:
Tesoro Corporation
19100 Ridgewood Parkway
San Antonio, Texas 78259-1828
Attn: General Counsel
Facsimile: (210) 745-4494

If to the General Partner, the Partnership or the Operating Company:
Tesoro Logistics LP
c/o Tesoro Logistics GP, LLC, its General Partner
19100 Ridgewood Parkway
San Antonio, Texas 78259-1828
Attn: General Counsel
Facsimile: (210) 745-4494

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

*[Signature Page Follows]*

IN WITNESS WHEREOF, the Parties to this Agreement have caused it to be duly executed effective as of the Effective Time.

**TESORO CORPORATION**

By: /S/ GREGORY J. GOFF
Gregory J. Goff
President and Chief Executive Officer

**TESORO REFINING & MARKETING COMPANY LLC**

By: /S/ GREGORY J. GOFF
Gregory J. Goff
Chairman of the Board of Managers and President

**TESORO LOGISTICS LP**

By: Tesoro Logistics GP, LLC,
its general partner

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

**TESORO LOGISTICS GP, LLC**
**TESORO LOGISTICS OPERATIONS LLC**

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

**EXHIBIT A-1**

**Assets (Tankage)**

| | *Shell Capacity* |
|---|---|
| **Tank #** | **(Barrels)** |
| TK003 | 71,100 |
| TK026 | 97,900 |
| TK033 | 97,900 |
| TK037 | 53,688 |
| TK038 | 53,678 |
| TK217 | 97,800 |
| TK270 | 75,400 |
| TK272 | 75,500 |
| TK274 | 75,500 |
| TK601 | 14,600 |
| TK612 | 10,400 |
| TK613 | 10,400 |
| TK631 | 122,700 |
| TK637 | 71,600 |
| TK638 | 71,600 |
| TK639 | 71,600 |
| TK640 | 71,600 |
| TK641 | 71,600 |
| TK664 | 116,500 |
| TK690 | 283,000 |
| TK691 | 222,100 |
| TK692 | 66,000 |
| TK694 | 283,000 |
| TK696 | 13,616 |
| TK697 | 13,500 |
| TK698 | 13,500 |
| TK701 | 283,000 |
| TK702 | 117,300 |
| TK705 | 210,000 |
| TK706 | 113,000 |
| TK707 | 113,000 |
| TK708 | 283,000 |
| TK709 | 113,000 |
| TK710 | 80,000 |
| TK711 | 80,000 |
| TK777 | 6 |

| | |
|---|---|
| TK778 | 6 |
| TK849 | 112,000 |
| TK866 | 218,400 |
| TK867 | 218,400 |
| TK868 | 86,700 |
| TK869 | 86,700 |
| TK870 | 119,171 |
| TK871 | 283,000 |
| TK872 | 218,400 |
| TK893 | 114,300 |
| TK894 | 113,300 |
| TK904 | 115,600 |
| TK905 | 126,700 |
| TK932 | 86,700 |
| TK933 | 127,000 |
| TK961 | 190 |
| TK981 | 190 |

53 crude and black-oils and petroleum product storage tanks with a total shell capacity of approximately 5,644,845 Barrels and pipelines and other appurtenances that allow the transport of crude oil and petroleum products to and from the nearby dock and to and from other facilities located at TRMC's refinery near Martinez in Contra Costa County, California.

# EXHIBIT A-2

## Avon Marine Terminal Assets

All machinery and equipment, mobile or otherwise, systems and other tangible personal property in each case presently owned by TRMC, located in or on the Avon Marine Terminal, including:

| Cost Ctr | Asset | SNo. | Cap.date | Asset description |
|---|---|---|---|---|
| 18004 | 100018779 | 0 | 12/31/2002 | CARB 3 PROJECT - GASOLINE BLENDING FACILITIES |
| 18004 | 100029031 | 0 | 8/15/2003 | CARB 3 PROJECT - GASOLINE BLENDING FACILITIES |
| 18004 | 100034399 | 0 | 5/17/2002 | #1-247 WAREHOUSE,4000 SF, PRE-ENG METAL-1951 |
| 18004 | 100034417 | 0 | 5/17/2002 | #3-129 SCALE OFFICE, 200 SF, PRE-ENG METAL-1951 |
| 18004 | 100034418 | 0 | 5/17/2002 | #3-130 GAUGER'S OFC, 1500 SF, PRE-ENGMETAL-1951 |
| 18004 | 100034431 | 0 | 5/17/2002 | BLENDING, TREATING & RACKS |
| 18004 | 100034892 | 0 | 12/31/2002 | CARB PHASE 3 - GASOLINE BLENDING |
| 18004 | 100037036 | 0 | 5/27/2005 | TR6 PIPING - PHA RECOMMENDATIONS 2004/05 |
| 18004 | 100052436 | 0 | 3/28/2013 | LINE 68 DIESEL CONVERSION PIPING |
| 18004 | 100052437 | 0 | 3/28/2013 | LINE 68 DIESEL CONVERSION INSTRUMENTATION |
| 18004 | 100052652 | 0 | 4/3/2013 | DIESEL PUMP TIE-INS PIPING |
| 18004 | 100052652 | 1 | 1/1/2014 | DIESEL PUMP TIE-INS PIPING |
| | | | | |
| 18004 | **Fixed Assets** | | | |
| | | | | |
| 18044 | 100034882 | 0 | 10/15/2002 | FIREWATER IMPROVEMENTS - TR 4 / 6 |
| 18044 | 100036473 | 0 | 6/30/2004 | TANK 38 WATER PUMP/TRACT 4 - FIREWATER SYS UPGRADE |
| | | | | |
| 18044 | | | | |
| | | | | |
| 18342 | 100018841 | 0 | 12/27/2002 | GASOLINE BLENDER AIR COMPRESSOR & DRYER |
| 18342 | 100018971 | 0 | 1/1/2003 | GASOLINE BLENDER AIR COMPRESSOR & DRYER |
| 18342 | 100034891 | 0 | 12/27/2002 | GASOLINE BLENDER AIR COMPRESSOR & DRYER |
| 18342 | 100036006 | 0 | 3/8/2004 | GASOLINE BLENDING LOGISTICS - PIPING TKS 639 & 640 |
| 18342 | 100036470 | 0 | 11/5/2004 | CORIOLIS FLOW METER - CHEVRON LACT METER SKID |
| 18342 | 100036471 | 0 | 11/5/2004 | 6" FISHER ET VALVE - CHEVRON LACT METER SKID |
| 18342 | 100036764 | 0 | 1/1/2005 | CORIOLIS FLOW METER - CHEVRON LACT METER SKID |
| 18342 | 100036765 | 0 | 1/1/2005 | 6" FISHER ET VALVE - CHEVRON LACT METER SKID |
| 18342 | 100037587 | 0 | 12/8/2005 | TRANSFORMER - TRACT 4 NEAR TANK 707 |
| 18342 | 100038448 | 0 | 9/13/2006 | GAUGING - TR4 PUMP P-747 UPGRADE |
| 18342 | 100038826 | 0 | 12/19/2006 | TANK RECONSTRUCTION - PHASE 2 - PUMP P-10144 |
| 18342 | 100038827 | 0 | 12/19/2006 | TANK RECONSTRUCTION - PHASE 2 - PUMP P-10147 |
| 18342 | 100038828 | 0 | 12/19/2006 | TANK RECONSTRUCTION - PHASE 2 - PUMP P-10148 |

| Cost Ctr | Asset | SNo. | Cap.date | Asset description |
|---|---|---|---|---|
| 18342 | 100038829 | 0 | 12/19/2006 | TANK RECONSTRUCTION - PHASE 2 - EXCHANGER E-5150 |
| 18342 | 100038830 | 0 | 12/19/2006 | TANK RECONSTRUCTION-PHASE 2 - TR4 PIPING UPGRADES |
| 18342 | 100038831 | 0 | 12/19/2006 | TANK RECONSTRUCTION - PHASE 2 - TR4 I/E UPGRADES |
| 18342 | 100038968 | 0 | 2/14/2007 | GASOLINE BLENDING ANALYZER - FTIR |
| 18342 | 100039004 | 0 | 1/1/2007 | GAUGING - TR4 PUMP P-747 UPGRADE |
| 18342 | 100039046 | 0 | 3/28/2007 | SECONDARY CONTAINMENT/BERM SYSTEM UPGRADE-TANK 318 |
| 18342 | 100039056 | 0 | 2/27/2007 | PROCESS HAZARD ANALYSIS 2004/2005 - GAUGING |
| 18342 | 100039438 | 0 | 4/30/2007 | CRUDE TRANSFER LINE EXTENSION - TRACK 4 |
| 18342 | 100039439 | 0 | 4/30/2007 | TANK PIPING CONNECTIONS - TRACK 4 CRUDE SYSTEM |
| 18342 | 100039440 | 0 | 4/30/2007 | CRUDE BLENDING INSTRUMENTATION IMPROVEMENTS |
| 18342 | 100039441 | 0 | 6/3/2007 | 63 CRUDE OIL PIPELINE SECTION-TR3 SLOUGH-TR2 PUMP |
| 18342 | 100040405 | 0 | 1/1/2008 | 63 CRUDE OIL PIPELINE SECTION-TR3 SLOUGH-TR2 PUMP |
| 18342 | 100040581 | 0 | 1/1/2008 | TRACT 4 - PIPELINE IMPR/ADD-CRUDE TRANSFERS |
| 18342 | 100040950 | 0 | 1/1/2008 | CRUDE TRANSFER LINE EXTENSION - TRACK 4 |
| 18342 | 100041047 | 0 | 1/1/2008 | TANK RECON - TR4 PIPING UPGRADE - PUNCHLIST ITEMS |
| 18342 | 100044693 | 0 | 9/1/2009 | OFFSITES SUITE - SOFTWARE |
| 18342 | 100044694 | 0 | 9/1/2009 | OFFSITES SUITE - SERVER HARDWARE |
| 18342 | 100044761 | 0 | 9/2/2009 | PHA - TRACT4 - #26 & #32 |
| 18342 | 100044762 | 0 | 1/1/2010 | PHA - PUMP 9829 MODIFICATIONS |
| 18342 | 100044763 | 0 | 1/7/2010 | PHA - PUMPHOUSE 68 SUMP MODIFICATIONS |
| 18342 | 100044774 | 0 | 1/1/2010 | TANK MONITORING EQUIPMENT (TANK #s 134,137, & 318) |
| 18342 | 100044775 | 0 | 1/1/2010 | GAUGING/SHIPPING PIPELINE MONITORING EQPT |
| 18342 | 100045684 | 0 | 3/1/2010 | TRACT 3 - POWER DISTRIBUTION CENTER - PDC-49 |
| 18342 | 100046189 | 0 | 1/1/2011 | TR6-DIESEL PIPING UPGRADES RE: TK270 |
| 18342 | 100046190 | 0 | 1/1/2011 | TR3-DIESEL PIPING UPGRADES RE: TK932 |
| 18342 | 100046371 | 0 | 1/1/2011 | PHA ASSETS - TR6 - REVISE 68 PUMP HOUSE SUMP#1 |
| 18342 | 100046372 | 0 | 1/1/2011 | PHA ASSETS - TR6 - REVISE 68 PUMP HOUSE SUMP#2 |
| 18342 | 100048763 | 0 | 1/18/2012 | PHA - TR4 - MISC VALVES AND PLATFORMS |
| 18342 | 100048765 | 0 | 1/1/2012 | PHA - TR6 BLENDING |
| 18342 | 100048766 | 0 | 1/1/2012 | PHA - TR6 BLENDING - ELECTRICAL CLASSIFICATION |
| 18342 | 100048767 | 0 | 1/1/2012 | SULFUR ANALZER - TR6 GASOLINE BLENDING |
| 18342 | 100051411 | 0 | 11/13/2012 | COMMUNICATION AND SECURITY SYSTEM |
| 18342 | 100051412 | 0 | 11/13/2012 | FIRE & SAFETY SYSTEM - BAKKEN CRUDE OFFLOADING |
| 18342 | 100051413 | 0 | 11/13/2012 | CONTAINMENT PAD AND PAVING |
| 18342 | 100051413 | 1 | 1/1/2013 | CONTAINMENT PAD AND PAVING |
| 18342 | 100051414 | 0 | 11/13/2012 | TANK TRUCK UNLOADING STATION |
| 18342 | 100051414 | 1 | 1/1/2013 | TANK TRUCK UNLOADING STATION |
| 18342 | 100051415 | 0 | 11/13/2012 | TRANSFER PIPING FROM UNLOADING STATION TO TK-707 |
| 18342 | 100051415 | 1 | 1/1/2013 | TRANSFER PIPING FROM UNLOADING STATION TO TK-707 |
| 18342 | 300039718 | 0 | 6/30/2012 | Permit Cost |

| Cost Ctr | Asset | SNo. | Cap.date | Asset description |
|---|---|---|---|---|
| 18342 | 300039719 | 0 | 7/31/2012 | Contract Services |
| 18342 | 300062346 | 0 | 2/10/2016 | Pipe, Valves and Fittings |
| 18342 | 300062347 | 0 | 12/31/2015 | Other Machinery & Equipment |
| 18342 | 300062349 | 0 | 12/22/2015 | Electrical/Instrument Components |
| 18342 | 300062353 | 0 | 2/26/2016 | Equip Installation & Site Fabrication |
| 18342 | 300062354 | 0 | 1/19/2016 | Pipe, Valves and Fittings - Installation |
| 18342 | 300062355 | 0 | 12/10/2015 | Instrumentation & Automation |
| 18342 | 300062357 | 0 | 2/13/2016 | Installation Support |
| 18342 | 300062360 | 0 | 5/24/2016 | Survey and Study Costs |
| 18342 | 300062362 | 0 | 10/24/2015 | Contract Services |
| 18342 | 950009345 | 0 | 3/19/2015 | Repair Costs |
| 18342 | 950010756 | 0 | 2/13/2016 | Repair Costs |
| 18342 | 950010757 | 0 | 2/29/2016 | Engineering |
| 18342 | 950010760 | 0 | 3/29/2016 | Tank Components |
| 18342 | 950010761 | 0 | 4/12/2016 | Equipment Rentals |
| 18342 | 950010762 | 0 | 2/24/2016 | Contract Services |
| | | | | |
| 18342 | **Gauging-Maint** | | | |
| | | | | |
| 18343 | 100036016 | 0 | 3/22/2004 | TANK 691 - BUTANE STORAGE CONTROLS |
| 18343 | 100036985 | 0 | 5/15/2005 | PROPANE/OIL SEPARATOR - VESSEL - TANK 691 |
| 18343 | 100036995 | 0 | 5/15/2005 | MINIMUM-FLOW CONTROL VALVE STATION- TK691 BLENDING |
| 18343 | 100036996 | 0 | 5/10/2005 | PILOT IGNITERS - TANK 691 FLARE |
| 18343 | 900002699 | 0 | 10/29/2015 | TANK 691 TURNAROUND - 2015 |
| 18343 | 900002699 | 1 | 1/1/2016 | TANK 691 TURNAROUND - 2015 |
| 18343 | 950009253 | 0 | 12/23/2014 | INSTRUMENTATION |
| | | | | |
| 18343 | **LPG Storage-Maint** | | | |
| | | | | |
| 18365 | 100034911 | 0 | 12/10/2003 | AVON WHARF SLOPS TANK - VOC MITIGATION |
| 18365 | 100035091 | 0 | 1/1/2004 | AVON WHARF SLOPS TANK - VOC MITIGATION |
| 18365 | 100040064 | 0 | 9/30/2007 | AVON SLOP OIL SYSTEM - TANK 906 - BERTH 1 |
| 18365 | 100040065 | 0 | 9/30/2007 | AVON SLOP OIL SYSTEM - TANK 907 - BERTH 5/6 |
| 18365 | 100040771 | 0 | 1/1/2008 | ALLISON AVOIDANCE SYSTEM - AVON WHARF |
| 18365 | 100040772 | 0 | 1/1/2008 | ALLISON AVOIDANCE SYSTEM - AVON WHARF SOFTWARE |
| 18365 | 100040953 | 0 | 1/1/2008 | AVON SLOP OIL SYSTEM - TANK 907 - BERTH 1 |
| 18365 | 100040954 | 0 | 1/1/2008 | AVON SLOP OIL SYSTEM - TANK 907 - BERTH 5/6 |
| 18365 | 100042602 | 0 | 1/1/2008 | AVON WHARF - TURNING BASIS MARKERS |
| 18365 | 100043416 | 0 | 1/1/2009 | FASB 143 ASSET RETIREMENT COST - AVON WHARF |
| 18365 | 100043416 | 1 | 12/1/2014 | FASB 143 ASSET RETIREMENT COST - AVON WHARF |
| 18365 | 100044680 | 0 | 9/25/2009 | AVON WHARF LIGHTING IMPROVEMENTS |

| Cost Ctr | Asset | SNo. | Cap.date | Asset description |
|---|---|---|---|---|
| 18365 | 100044686 | 0 | 9/25/2009 | AVON WHARF CALARP-BUILDING STRUCTURE ANCHORAGE |
| 18365 | 100045144 | 0 | 1/1/2010 | AVON WHARF LIGHTING IMPROVEMENTS |
| 18365 | 100048224 | 0 | 9/14/2011 | Avon Wharf Mooring Dolphin - B3 |
| 18365 | 100048224 | 1 | 9/14/2011 | Avon Wharf Mooring Dolphin - B3 |
| 18365 | 100048224 | 2 | 1/1/2012 | Avon Wharf Mooring Dolphin - B3 |
| 18365 | 100048225 | 0 | 9/14/2011 | Avon Wharf Mooring Dolphin - B4 |
| 18365 | 100048225 | 1 | 9/14/2011 | Avon Wharf Mooring Dolphin - B4 |
| 18365 | 100048225 | 2 | 1/1/2012 | Avon Wharf Mooring Dolphin - B4 |
| 18365 | 100051839 | 0 | 1/23/2013 | AVON WHARF MOORING LINES |
| 18365 | 300028399 | 0 | 3/31/2016 | Feasibility Study & Pre-Engineering |
| 18365 | 300028402 | 0 | 1/24/2008 | Other Machinery & Equipment |
| 18365 | 300028404 | 0 | 3/20/2013 | Electrical/Instrument Components |
| 18365 | 300028405 | 0 | 1/24/2015 | Other Materials |
| 18365 | 300028406 | 0 | 11/20/2014 | Concrete/Earth |
| 18365 | 300028408 | 0 | 10/31/2015 | Piling |
| 18365 | 300028409 | 0 | 3/23/2008 | Equip Installation & Site Fabrication |
| 18365 | 300028411 | 0 | 2/28/2015 | Instrumentation & Automation |
| 18365 | 300028412 | 0 | 7/29/2011 | Electrical |
| 18365 | 300028413 | 0 | 10/20/2015 | Installation Support |
| 18365 | 300028414 | 0 | 7/31/2009 | Demolition/Removal |
| 18365 | 300028415 | 0 | 9/25/2014 | Paint |
| 18365 | 300028416 | 0 | 2/23/2008 | Permit Cost |
| 18365 | 300028417 | 0 | 8/31/2007 | Contract Services |
| 18365 | 300040465 | 0 | 4/15/2015 | Professional Services - Equipment |
| 18365 | 300040466 | 0 | 6/30/2016 | In-House Engineering - Equipment |
| 18365 | 300050691 | 0 | 3/31/2015 | Contract Services |
| 18365 | 300059858 | 0 | 11/25/2015 | Permit Cost |
| 18365 | 300062440 | 0 | 2/10/2016 | Vessels |
| 18365 | 300062443 | 0 | 12/31/2015 | Pipe, Valves and Fittings - Installation |
| | | | | |
| 18365 | **Avon Wharf_Maint** | | | |
| | | | | |
| 18816 | 100034822 | 0 | 5/17/2002 | SHIPPING REFINED OIL-TRUCKS & TANK CARS |
| | | | | |
| 18816 | **LHP Trtng&tank-OPS** | | | |
| | | | | |
| 18965 | 100034856 | 0 | 5/17/2002 | AVON WHARF |
| 18965 | 100034856 | 1 | 5/17/2002 | AVON WHARF |
| 18365 | 100042606 | 0 | 1/1/2008 | AVON WHARF-PIPELINE/SUPPORTUPGRADE SOUTH LANDSEND |

| Cost Ctr | Asset | SNo. | Cap.date | Asset description |
|---|---|---|---|---|
| | **Avon Wharf Slops Tanks** | | | |
| | | | | TK906 - 27 bbls |
| | | | | TK907 – 27 bbls |

# EXHIBIT A-3

## Avon Wharf Pipeway

| Cost Ctr | Asset | SNo. | Cap.date | Asset description |
|---|---|---|---|---|
| 18365 | 100037201 | 0 | 7/15/2005 | AVON WHARF PIPING AND SUPPORT - UPGRADE |
| 18365 | 100037920 | 0 | 1/1/2006 | AVON WHARF PIPING AND SUPPORT - UPGRADE |
| 18365 | 100048114 | 0 | 1/18/2011 | Avon Wharf - Approach Trestle / Structural Pile |
| 18365 | 1000481226 | 0 | 9/16/2011 | Avon Wharf – Berth 1 – Piping Manifold |
| 18365 | 100048226 | 1 | 1/1/2012 | Avon Wharf – Berth 1 – Piping Manifold |

**EXHIBIT B**

**Permitted Liens**

Liens, claims, charges, options, encumbrances, mortgages, pledges or security interests as follows:

(a) incurred and made in the ordinary course of business in connection with worker's compensation;

(b) that secure the performance of bids, tenders, leases, contracts (other than for the repayment of debt), statutory obligations, surety, customs and appeal bonds and other obligations of like nature, incurred as an incident to and in the ordinary course of business;

(c) imposed by law, such as carriers', warehouseman's, mechanics', materialmen's, landlords', laborers', suppliers' and vendors' liens, incurred in good faith in the ordinary course of business and that secure obligations that are not yet due or delinquent or which are being contested in good faith by appropriate proceedings as to which the TRMC has set aside on its books adequate reserves;

(d) that secure the payment of taxes, either not yet due or delinquent or being contested in good faith by appropriate legal or administrative proceedings and as to which TRMC has set aside on its books adequate reserves;

(e) zoning restrictions, easements, licenses, rights of way, declarations, reservations, provisions, covenants, conditions, waivers or restrictions on the use of property (and with respect to leasehold interests, mortgages, obligations and liens incurred, created, assumed or permitted to exist and arising by, through or under a landlord or owner of the leased property, with or without consent of the lessee);

(f) on property existing at the time such property was acquired by TRMC (provided, that they were not created in contemplation of the acquisition of such property by TRMC);

(g) created by the Operating Company;

(h) pursuant to this Agreement, the Omnibus Agreement, the Secondment and Logistics Services Agreement, the Martinez Storage Services Agreement, the Avon Marine Terminal Sublease Agreement, the Avon Marine Terminal Use and Throughput Agreement and the License Agreement; and

(i) pursuant to the Master Lease.

# EXHIBIT C

## Excluded Assets and Liabilities

Excluded Assets and Liabilities related to the Avon Marine Terminal:

- Any and all inventory;
- Any liabilities with respect to the Avon Marine Terminal Renovation
- Any land on which the Avon Marine Terminal is located and any liabilities related thereto; and
- Any working capital of TRMC and its Affiliates (other than the General Partner and the Partnership Group) related to such assets.

Excluded Assets and Liabilities related to the Tankage:

- Any and all inventory;
- Any land on which the Tankage is located and any liabilities related thereto; and
- Any working capital of TRMC and its Affiliates (other than the General Partner and the Partnership Group) related to such assets.

**EXHIBIT D**

**Bill of Sale**

(See attached.)

**EXHIBIT E**

**Martinez Storage Services Agreement**

(See attached.)

**EXHIBIT F**

**License Agreement**

(See attached.)

**EXHIBIT G**

**Avon Marine Terminal Operating Agreement**

(See attached.)

**EXHIBIT H-1 and H-2**

**Amendment and Service Orders to the Secondment Agreement**

(See attached.)

**EXHIBIT I**

**Fourth Amended and Restated Schedules to the Omnibus Agreement**

(See attached.)

**EXHIBIT J**

**Amendment No. 5 to Amended and Restated Limited Liability Company Agreement of the General Partner**

(See attached.)

**EXHIBIT K**

**Ten-Year Promissory Note**

(See attached.)

**EXHIBIT L**

**Debt Indemnification Agreement**

(See attached.)

**EXHIBIT M**

**Closing Escrow Agreement**

(See attached.)

**EXHIBIT N**

**Avon Marine Terminal Sublease Agreement**

(See attached.)

**EXHIBIT O**

**Avon Marine Terminal Use and Throughput Agreement**

(See attached.)

**Exhibit 10.90**

**TESORO LOGISTICS LP**

**NON-EMPLOYEE DIRECTOR COMPENSATION PROGRAM**

On January 17, 2017, the Board of Directors of our general partner adopted changes to the director compensation program under which our general partner's non-employee directors are compensated for their service as directors. The changes to the compensation program were made effective as of January 1, 2017. Each non-employee director receives a compensation package consisting of an annual retainer, an additional retainer for service as the chair of a standing committee and meeting attendance fees and may also receive grants of equity-based awards upon appointment to the Board of Directors.

**Non-Employee Director Annual Retainers and Fees (a)**

| | |
|---|---|
| Annual Retainer (b) | $ 142,000 |
| Annual Retainer for Audit and Conflicts Committee Chairs | 15,000 |
| Board and Committee Meeting Fees (c) | 1,500 per meeting |

(a) In addition to the retainers set forth above, we reimburse our non-employee directors for travel and lodging expenses that they incur in connection with attending meetings of the board of directors or its committees.

(b) The annual retainer is payable $61,000 in cash and $81,000 in an award of service phantom units. Unit-based awards granted to non-employee directors under the annual compensation package or upon first election to the board of directors under our long-term incentive plan, generally vest one year from the date of grant. If the non-employee director termination from the board is due to death or disability, director's service phantom units will automatically vest along with any accrued cash distribution equivalent rights. If termination is due to any other reason, the non-employee director will receive a pro-rated award for the number of full months served as a non-employee director during the vesting period along with any accrued cash distribution equivalent rights. The pro-rated award will vest one year from the date of grant. Cash distribution equivalent rights accrue with respect to equity-based awards and are distributed at the time such awards vest. The number of units granted will be determined by dividing $81,000 by the average closing price of our common units on the NYSE over a ten business-day period ending on the third business day prior to the grant date and rounding any resulting fractional units to the nearest whole unit. The plan provides that unit-based awards to directors will be granted annually in conjunction with the Board's approval of our Annual Report on Form 10-K, and that any new non-employee director will receive a pro rata award of service phantom units when commencing his or her services as a board member.

(c) A meeting fee is paid to a non-employee director for attendance in person or by telephone.

**Exhibit 21.1**

**SUBSIDIARIES OF**
**TESORO LOGISTICS LP**

| Subsidiary | Jurisdiction of Organization |
|---|---|
| Tesoro High Plains Pipeline Company LLC | Delaware |
| Tesoro Logistics Finance Corp. | Delaware |
| Tesoro Logistics Northwest Pipeline LLC | Delaware |
| Tesoro Logistics Pipelines LLC | Delaware |
| Tesoro Logistics Operations LLC | Delaware |
| Tesoro SoCal Pipeline Company LLC | Delaware |
| Tesoro Alaska Pipeline Company LLC | Delaware |
| Tesoro Alaska Terminals LLC | Delaware |
| QEP Field Services, LLC | Delaware |
| QEP Midstream Partners GP, LLC | Delaware |
| QEP Midstream Partners, LP (a) | Delaware |
| QEP Midstream Partners Operating, LLC (b) | Delaware |
| QEPM Gathering I, LLC (c) | Delaware |
| Rendezvous Pipeline Company, LLC (d) | Colorado |
| Rendezvous Gas Services, L.L.C. (e) | Wyoming |
| Green River Processing, LLC (f) | Delaware |
| Three Rivers Gathering, L.L.C. (g) | Delaware |
| Uintah Basin Field Services, L.L.C. (h) | Delaware |

(a) 98% owned by QEP Field Services, LLC and 2% general partner interest owned by QEP Midstream Partners GP, LLC
(b) 100% owned by QEP Midstream Partners, LP
(c) 100% owned by QEP Midstream Operating, LLC
(d) 100% owned by QEPM Gathering I, LLC
(e) 78% owned by QEPM Gathering I, LLC
(f) 60% owned by QEP Field Services, LLC and 40% owned by QEP Midstream Partners Operating, LLC
(g) 50% owned by QEP Midstream Partners Operating, LLC
(h) 38% owned by QEP Field Services, LLC

**Exhibit 23.1**

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1) Registration Statement (Form S-3 No. 333-206168) of Tesoro Logistics LP authorizing the continuous issuance of common units representing limited partner interests having an aggregate gross sales price of up to $750 million
2) Registration Statement (Form S-3 No. 333-211863) of Tesoro Logistics LP
3) Registration Statement (Form S-8 No. 333-173807) pertaining to the Tesoro Logistics LP 2011 Long-Term Incentive Plan
4) Registration Statement (Form S-8 No. 333-214395) pertaining to the Tesoro Logistics LP 2011 Long-Term Incentive Plan

of our reports dated February 21, 2017, with respect to the combined consolidated financial statements of Tesoro Logistics LP, and the effectiveness of internal controls over financial reporting of Tesoro Logistics LP, included in this Annual Report (Form 10-K) of Tesoro Logistics LP for the year ended December 31, 2016.

/s/ ERNST & YOUNG LLP

San Antonio, Texas
February 21, 2017

**Exhibit 31.1**

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

I, Gregory J. Goff, certify that:

1. I have reviewed this annual Report on Form 10-K of Tesoro Logistics LP;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) 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 annual 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 annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   (d) Disclosed in this annual 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: February 21, 2017

/s/ GREGORY J. GOFF

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

**Exhibit 31.2**

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

I, Steven M. Sterin, certify that:

1. I have reviewed this annual Report on Form 10-K of Tesoro Logistics LP;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) 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 annual 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 annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   (d) Disclosed in this annual 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: February 21, 2017

/s/ STEVEN M. STERIN

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

**Exhibit 32.1**

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

In connection with the Annual Report of Tesoro Logistics LP (the "Partnership") on Form 10-K for the year ended December 31, 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)

February 21, 2017

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

**Exhibit 32.2**

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

In connection with the Annual Report of Tesoro Logistics LP (the "Partnership") on Form 10-K for the year ended December 31, 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)

February 21, 2017

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.