



TESORO

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September 22, 2014

North Dakota Industrial Commission
600 E. Blvd. Ave., Dept. 405
Bismarck, ND 58505-0840

Dear Commissioners:

The Tesoro Refining & Marketing Company LLC ("Tesoro") appreciates the opportunity to submit written comments in connection with the North Dakota Industrial Commission hearing on the establishment of oil conditioning standards appropriate for the improvement of transportation safety and marketability of Bakken-sourced petroleum.

Tesoro commends Governor John Dalrymple and the Commission for holding this hearing and for their ongoing attention to the entire suite of issues relative to the safe and efficient transportation of Bakken-based crude within North Dakota and throughout the United States.

Tesoro Refining & Marketing Company LLC, a Fortune 100 company, is an independent refiner and marketer of petroleum products. Tesoro, through its subsidiaries, operates six refineries in the western United States with a combined capacity of over 850,000 barrels per day and ownership in a logistics business which include a 35% interest in Tesoro Logistics LP (NYSE:TLLP) and ownership of its general partner. Tesoro's retail-marketing system includes over 2,200 retail stations under the ARCO, Shell, Exxon, Mobil, USA Gasoline(TM) and Tesoro brands. Tesoro is proud to have a long-time and significant presence in North Dakota, and we are honored to be a vital member of this community. Relative to the issue at hand, Tesoro also brings a unique as well as comprehensive perspective as we are, in North Dakota, simultaneously a pipeline operator, a rail shipper, rail car lessee, and refiner. It is from this perspective that we will direct our comments to the issue of stabilization of Bakken crude.

Tesoro is currently aware of three studies that have independently reached the same conclusion that Bakken crude is similar to other North American light sweet crude oils in gravity, vapor pressure, and initial boiling point, which are the primary components of volatility. Those studies are "A Survey of Bakken Crude Oil Characteristics Assembled for the U.S. Department of Transportation," dated May 14, 2014, submitted by the

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American Fuel and Petrochemical Manufacturers (AFPM); "The Turner Mason and Company Study on Bakken Crude Properties," dated July 16, 2014, submitted by the Bakken Crude Characterization Task Force; and "Operation Safe Delivery," dated July 2014 (incorporating "Operation Classification," dated August 2013), submitted by the U.S. Department of Transportation. Further, and again based on the conclusions of all three studies, the chemical properties of Bakken crude oil confirm its proper classification as a Class 3 flammable liquid under current federal regulations governing the shipment of hazardous materials.

Tesoro is not currently aware of any study that has reached an opposite conclusion on Bakken volatility and neither, apparently, is the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA). Indeed, recent congressional testimony on September 9, 2014, by PHMSA's Associate Administrator, Tim Butters, before the U.S. House Committee on Science and Technology, Subcommittees on Energy and Oversight, explicitly agreed with the conclusions of the May 14 AFPM study and stated that PHMSA had independently reached the same conclusion as AFPM based on data collected by the agency during Operation Safe Classification. Presumably, if PHMSA were aware of a study reaching an opposite conclusion, they would have stated as much. In fact, the September 9 hearing was called to explore the state of research on the issue of Bakken crude characteristics and at no time did any of the witnesses testifying point to the existence of any study that reached an opposite conclusion on Bakken volatility.

Setting aside the absence of any credible data in support of higher Bakken volatility compared to other domestic light sweet crudes, there are several operational realities present in North Dakota that have discouraged stabilization activities to date. These include a lack of infrastructure for transporting the light ends produced by stabilization, namely collection piping systems from wellhead to gas processing facilities, investment and operating costs associated with stabilization equipment, and the need for additional storage capacity to hold the light end product. All of these realities would need to be factored into any decision on Bakken stabilization moving forward.

Finally, Tesoro urges the Commission to carefully consider several questions as it proceeds with making a determination on the issue presented. One, would requiring stabilization to ostensibly reduce Bakken volatility only create a scenario by which the resulting and volatile light ends would then have to be transported elsewhere, thus increasing safety concerns? Second, would stabilization result in a re-classification of Bakken crude as a combustible liquid under existing regulations governing the transport of hazardous materials? Third, would the stabilization of Bakken crude reduce the relative refining value of the commodity, as the stabilization process would cut deep into the gasoline valued fraction of the Bakken crude? Fourth, would the stabilization of Bakken crude truly address the safety concerns presented by a derailment scenario in

which multiple ignition sources would be present as the burning of either stabilized or unstabilized crude is unlikely to materially differ?

Tesoro remains strongly committed to the safe transportation of Bakken crude by rail as evidenced by our Company being the industry leader in voluntarily divesting our fleet of legacy DOT-111 tank cars earlier this year and by supporting the increased shell thickness of new tank cars as part of the ongoing U.S. Department of Transportation rulemaking. At this point; however, and based on known data to date, Tesoro is unable to conclude that the stabilization of Bakken crude is warranted.

A handwritten signature in blue ink, appearing to read "Ronald W. Day". The signature is fluid and cursive, with a prominent loop at the end.

Ronald W. Day
Director, Mid-Continent Government and Public Affairs
Tesoro Refining & Marketing Company LLC