

December 14, 2011



Mr. J. Gordon Seymour
Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Tesoro Corporation
19100 Ridgewood Parkway
San Antonio, TX 78259
210 626 6000

Re: PCAOB Rulemaking Docket Matter No. 37: Concept release on auditor independence and audit firm rotation

Dear Mr. Seymour:

Tesoro Corporation is pleased to submit comments on the Public Company Accounting Oversight Board's (PCAOB or the Board) concept release on mandatory audit firm rotation (the Concept Release).

Tesoro Corporation ("Tesoro") is one of the largest independent petroleum refiners and marketers in the United States. We primarily manufacture and sell transportation fuels. We own and operate seven refineries in the western United States that refine crude oil and other feedstocks into transportation fuels, such as gasoline, gasoline blendstocks, jet fuel and diesel fuel, as well as other products, including heavy fuel oils, liquefied petroleum gas, petroleum coke and asphalt.

We support the Board's goals of continuously increasing audit quality and protecting investors; however we oppose mandatory audit firm rotation. This letter provides our overall views of selected issues from the Concept Release including:

- Our belief that mandatory audit firm rotation will negatively impact audit quality;
- Our belief that significant costs and unintended consequences would arise; and
- Our belief that there will be a negative impact on corporate governance and audit committees.

Negative Impact to Audit Quality

We do not believe that mandatory rotation of audit firms will increase audit quality.

It takes a significant amount of time for an auditor to understand the complexities of any public company and the industry in which they operate. The auditor's knowledge of a particular industry and public company is a critical factor in their ability to understand the risks and uncertainties faced by that public company and in evaluating the judgments and estimates inherent in the financial statements and disclosures of the company. While an audit firm brings technical expertise and general industry knowledge to an audit, it lacks specific knowledge about the client at the onset of the engagement. This knowledge develops over time. With mandatory rotation, the learning curve starts with each transition, increasing the risk of audit failure.

Audit firms may have general industry knowledge of the overall energy industry; however, different sectors within the energy industry vary greatly depending on their operations, geographical location, legal and tax structure and the extent to which the company is integrated. For example, the upstream energy sector is drastically different from the downstream, or refining and marketing sector. We believe that there are a limited number of audit firms that have the level of audit experience and specialized knowledge required to audit a large public company in the refining and marketing industry.

Within the past five years, we have used several auditing firms including all big-four public accounting firms for either audit or non-audit services. Mandatory rotation could limit our or any other public company's choice of qualified providers due to independence considerations or potentially cause an entity to forgo certain other services such as tax consulting, valuation services, information technology support, etc. to comply with the proposed new requirements.

We believe existing standards, as established by previously enacted reforms such as the Sarbanes Oxley Act of 2002, adequately address auditor independence, objectivity, and professional skepticism. These standards include, but are not limited to, engagement partner rotation, engagement quality assurance reviews, prohibited services, internal inspections, peer reviews, PCAOB regular and special inspections and audit committee oversight. However, if the argument is that these measures are not currently operating to effectively address the risks noted by the PCAOB, then adding a further standard does not accomplish the PCAOB's intended result. The focus should be on ensuring these existing standards are applied and operating properly.

Significant Costs and Unintended Consequences

We do not believe that any potential benefit will outweigh the costs and consequences of mandatory rotation.

There is a learning curve associated with a new audit which causes decreased efficiency at the beginning of the engagement. This learning curve would lead to an increase in the cost of the audit for both company resources and the audit firm. There would be an unnecessary burden to the company as its subject matter experts would have to make a significant time commitment to educate the new audit firm on the company's business, internal control environment, significant agreements, accounting policies and procedures, corporate structure, and accounting and business processes. This knowledge transfer would decrease productivity on the day-to-day responsibilities of both company and audit personnel. There is also a potential for increased audit risk with each transition due to limited knowledge of the successor auditor at the beginning of the engagement.

Audit quality increases when the auditor both knows and understands the Company's personnel and their management as well as their operations. Specific audit risks and related audit procedures should change with the knowledge gained from understanding the Company's unique circumstances. This understanding allows the audit team to tailor certain audit procedures and decreases the risk of a "check the box" type of audit. If not addressed appropriately by the successor auditor, certain risks may be left unaddressed and lead to undetected errors.

In the beginning of the engagement, audit firms would need to allocate additional resources to gain an understanding of the company's business and industry. The additional audit procedures required to assess

audit risk would likely increase audit fees. Additional time will be necessary to respond to inquiries between successor and predecessor auditors and review predecessor auditor workpapers. While audit fees could potentially decrease in the short term due to pressures in a continuously competitive environment as audit firms attempt to maintain their client base at each forced rotation, in the long run, audit firms would likely increase fees to recoup the costs. This type of cost pressure may unintentionally lead to decreased audit quality as audit firms will seek ways to maintain profitability.

Additional burden to the company and its audit committee will arise in the form of a selection process requiring the company to provide due diligence materials to competing firms, provide the successor auditor with information needed to plan the audit and inefficiencies of supporting the new firm while they gain familiarity with the company and its operations. In 2008, we transitioned to a new audit firm and experienced firsthand the inefficiencies and increased company resources necessary to familiarize the new audit firm with our financial statements, accounting policies, and related processes.

The above limitations may lead to decreased audit quality and create a significant administrative burden as well as additional costs. Audit quality is fundamental to the health of our financial markets, and it is imperative that we retain the most qualified and knowledgeable audit firm for our business.

Negative Impact on Corporate Governance and Audit Committees

We believe the standard would negatively impact the role of corporate governance and the audit committee

The purpose of the corporate governance structure is to ensure that a company acts in the best interest of its owners, the shareholders. This extends to the audit committee, which is responsible for retaining the independent auditor that it believes is best suited to ensure shareholder needs are met. Mandatory firm rotation would limit the audit committee's ability to perform this responsibility. This is in direct conflict with the risks the Sarbanes-Oxley Act of 2002 was intended to mitigate.

It is the audit committee's responsibility to evaluate the auditor's performance and to determine when and if a change in auditor is in the best interests of the shareholders. The audit committee is aware of the audit needs of the company and has sufficient knowledge to make this determination. The audit committee reviews and evaluates each audit firm's application of independence, objectivity, and professional skepticism. Based on its awareness of our needs, in 2008, our Audit Committee determined it was necessary to undertake an auditor tendering process. We believe this determination of whether a change in audit firm is warranted is best made by the audit committee rather than force a change on a mandated rotation schedule.

Additionally, audit committees would have fewer options from which to choose if mandatory firm rotation were in place. The current audit firm would automatically be disqualified from the pool of candidates. As discussed above, under current rules, audit firms providing non-audit services may also be disqualified from serving as independent auditors which would also limit the pool of possible candidates from which to choose. As each audit firm has different skill sets and industry expertise, the audit committee's ability to choose the firm it believes is best suited to the needs of the company and shareholders is restricted.

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We believe that the majority of proposals in the Concept Release will not have any measurable positive impact on the PCAOB's goal of improving audit quality and protecting investors; rather it may lead to decreased audit quality and increased audit costs. We would be pleased to discuss our comments with members of the PCAOB or its staff.

Sincerely,



G. Scott Spendlove
Senior Vice President and Chief Financial Officer