Exhibit T ___ (RGC-1T)
Docket No. TO-011472
Witness: Robert G. Colbo

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Washington Utilities and Transportation Commission,	)	**DOCKET NO. TO-011472**
Complainant,	)	
v.	)	
Olympic Pipe Line Company, Inc.,	)	
Respondent	)	

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**TESTIMONY OF
ROBERT G. COLBO**

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

January 4, 2002

WUTC DOCKET NO. TO-011472
EXHIBIT NO. 135-T
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Q. Please state your name and business address.

A. My name is Robert Colbo. My business address is 1300 S. Evergreen Park Drive S.W., Olympia, Washington 98504-7250.

Q. By whom are you employed and in what utilization?

A. I am employed by the Washington Utilities and Transportation Commission as a Transportation Program Consultant.

Q. Have you prepared a summary of your qualifications and experience?

A. Yes. Exhibit No. ___ (RGC-2) is my Statement of Qualifications and Experience.

Q. What is the subject of your testimony?

A. I will testify regarding the Staff recommended level of interim relief for Olympic Pipe Line Company, Inc. (Olympic or Company) in Docket TO-011472.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring Exhibit Nos. ___ (RGC-2) through ___ (RGC-3).

Q. What is the level of interim rate relief Staff recommends?

A. Staff recommends an increase in Washington intrastate revenues of 19.48%, or $2,719,829, subject to refund. Staff witness Mr. Elgin is responsible for the subject to refund issue, and the pre-tax net income requirement of $8,880,000 shown on my Exhibit No. ___ (RGC-3) at line 27, Column (G).

Q. Referring you to Exhibit No. ___ (RGC-3), entitled "Olympic Pipe Line Company, Inc., Total Company Interim Results, 2001 Forecast - Adjusted" what is the purpose of this exhibit?

A. This exhibit summarizes the information and calculations I used to support Staff's recommended level of interim rate relief. My intent was to produce a short-term, representative estimate of the Company's future revenues and expenses since the pipeline resumed operations in June, 2001, at 80% of pressure and 91% of calendar year 1998 throughput levels (pre-Whatcom Creek explosion).

Q. Has Staff audited the Company and completed its analysis of the Company's results of operations?

A. No. Staff has conducted only limited analysis. That is why the Staff adjustments in my Exhibit No. ___ (RGC-3) are preliminary and that is one reason why Staff is recommending the interim rates be subject to refund.

Q. Please describe Exhibit No. ___ (RGC-3).

A. The first column provides line numbers to make it easier to discuss the exhibit.

Column (A), entitled "Description," lines 1 through line 27, lists the major revenue and expense account titles used to portray the Company's operating results.

Column (B), entitled "Olympic Total Company July-December 2001 Forecast," lines 1 through line 27, reflects Olympic's total company year 2001 forecasted results of operations for the months of July through December. This forecast reflects actual operations for July through November, 2001, and estimates for December. This is the starting point for Staff's analysis. Throughput barrels for this period are shown on line 38.

Column (C), entitled "Preliminary Staff Adjustments," lines 1 through 27, reflects preliminary adjustments Staff has made to the Company's 6 month (July-December) 2001 forecast. Lines 28 through 37 provide a brief explanation of the adjustments made in Column (C).

Column (D), entitled "Staff Adjusted Total Company July-December 2001 Forecast" is Column (B) plus Column (C), and represents the cumulative effect of Staff's preliminary adjustments.

Column (E), entitled "Annualize Staff 6 Month Amounts - Full Year Impacts – 2001 Forecast," lines 1 through 27, reflects Column (D) amounts times 2.

Column (F), entitled "Staff Effect of Interim Rates" shows the impact of Staff's recommended interim revenue increase.

Column (G), entitled "Staff Adjusted Forecast w/Interim Rates," lines 1 through line 27, reflects the Company's results through 2001, according to Staff's analysis. Staff witness Mr. Elgin addresses the $8,880,000 figure on line 27. Line 38 shows the barrels of throughput associated with these results.

The box at lines 39-43 shows the Staff's total company interim revenue increase recommendation, and the resulting 19.48% increase . It also shows the intrastate/interstate split (38.23% intrastate / 61.77% interstate).

Q. Why have you proposed the 6 months of July – December 2001 as a starting point, rather than including results for January – June 2001?

A. July 2001 was the first full month after the Company began operating at 80% of normal pressure and approximately 91% of utilization. Prior to that time, segments of the pipeline were out of service. Accordingly, the first half of 2001 is not representative of Olympic's ongoing operations. In my analysis, I annualize (multiplying by 2) results for the last six months of 2001. That is more reflective of current, ongoing operations than including the first 6 months' results.

Q. Please explain Staff Adjustment 1 in Column (C), line 1: "Transportation."

A. Adjustment 1 in Column (C), line 1 removes the revenue impact of the 62% interim increase the Federal Energy Regulatory Commission (FERC) allowed to become effective September 1, 2001. That increase was granted subject to refund, pending FERC's ultimate determination in the case. Removing the $4,392,130 amount puts both regulatory jurisdictions on an equal basis in their independent determinations of appropriate rate levels.

Q. Please explain Staff Adjustment 2 in Column (C), line 6: "Salaries."

A. At this point Staff has not done a detailed analysis of salaries. I note, however, that current salary expense contended for by the Company in its general rate case is $7,380,000, from Exhibit No. ___ (OPL-31, CAH-4), Schedule 21, the sum of lines 1 and 9. This amount is significantly higher than recent past experience. Certain of the Company's promissory notes appear to restrict any salary expense increases that are inconsistent with past practice. Accordingly, I have not reflected the Company's general rate case amount. I reflect two times the half-year (June – December 2001) amount from the Company's forecast. This level is still significantly higher than levels in prior years.

I am also aware that beginning in August, 2000, the Company established a Government and Public Affairs operation with an initial 6 month budget through the end of the year of $996,000. The Company has not yet demonstrated that these types of expenditures are not related to the Whatcom Creek explosion, the Cross-Cascades Pipeline Project, or lobbying efforts. Nevertheless, pending final determination in the general rate case, and for the purposes of the current interim determinations, I reduced half-year salary expenses by $498,000 – one-half of the $996,000 figure.

Q. Please explain Staff Adjustment 3 in Column (6), line 7: "Supplies."

A. Adjustment 3 increases "Supplies" by $430,096 which, when combined with the amount in Column (B) and multiplied by 2 in Column (E) conforms to the detail for this account as depicted in the Company's general rate application at Exhibit

No. ___ (OPL-31, CAH-4), Schedule 21, the sum of lines 2 and 10. The resulting $1,889,000 appears to be a representative level, consistent with the Company's experience prior to the explosion.

Q. Please explain Staff Adjustment 4 in Column (6), line 8: "Outside Services/Major Maintenance" and line 10: "Administrative."

A. Adjustment 4 decreases "Outside Services/Major Maintenance" and "Administrative" by a net ($708,178) which, when combined with the amount in Column (B), and multiplied by 2 in Column (E) conforms to the detail for this account as depicted in the Company's general rate application at Exhibit No. ___ (OPL-31, CAH-4), Schedule 21, the sum of lines 3 and 11.

Q. Please explain Staff Adjustment 5 in Column (C), line 11: "Oil Gain/Loss."

A. Adjustment 5 increases "Oil Gain/Loss" expense by $436,746 which, when combined with the amount in Column (B) and multiplied by 2 in Column (E) conforms to the detail for this account as depicted in the Company's general rate application at Exhibit No. ___ (OPL-31, CAH-4), Schedule 21, line 5. This account tracks gains/loses in product value due to transmix/interface of shipments through the pipeline. The resulting $550,000 expense is high, but comparable to amounts that have been incurred in the recent past.

Q. Please explain Staff Adjustment 6 in Column (C), line 12: "Miscellaneous."

A. Adjustment 6 adds $881,552 of "Miscellaneous Expense" which, when combined with the amount in Column (B) and multiplied by 2 in Column (E) conforms to the detail for this account as depicted in the Company's general rate application at Exhibit No. ___ (OPL-31, CAH-4), Schedule 21, line 7: "Other Expenses."

Q. Please explain Staff Adjustment 7 in Column (C), line 17: "Insurance."

A. Adjustment 7 increases insurance expense by $279,140 which, when combined with the amount in Column (B) and multiplied by 2 in Column (E) conforms to the detail for this account as depicted in the Company's general rate application at Exhibit No. ___ (OPL-31, CAH-4), Schedule 21, line 5. The $1,102,000 in column (E) is consistent with the renewal notice the Company has received for insurance for 2002.

Q. Please explain Staff Adjustment 8 in Column (C), lines 18 and 19: "Casualty Loss" and "Insurance Recoveries" respectively.

A. Adjustment 8 removes the direct casualty losses and associated insurance recoveries recorded by the Company resulting from the June, 1999 Whatcom Creek explosion. The Company is not seeking to recover these amounts through rates in its general rate application, and it is also improper to include them in an analysis of on-going operating results to justify interim relief.

Q. Why haven't you made any adjustments to the power related expenses on lines 14 through 16?

A. The staff has not yet made a detailed analysis of the Company's power related expenses. The $8,509,104 amount in Column (E), line 16 is less than the $10,678,325 amount the Company is contending for in its general rate application in Exhibit No. ___ (OPL-31, CAH-4), Schedule 21, line 4 "Operating Fuel & Power." On a cents per barrel basis, the lower amount is consistent with recent past experience.

Q. Why are the amounts for Property and Franchise Tax on lines 21 and 22 unadjusted beyond the normal doubling that takes place in Column (E)?

A. These amounts are consistent with recent past experience prior to the Whatcom Creek explosion.

Q. Please explain Staff Adjustment 9 in Column (C), line 23: "Interest."

A. Adjustment 9 reclassifies Interest as a cost of capital, rather than an operating expense. The Company recovers interest requirements as a part of its overall return on rate base. To include interest as an operating expense as well as in the return calculation would provide a double recovery.

Q. Please explain Staff Adjustment 10 in Column (C), line 24: "Depreciation."

A. Adjustment 10 adds $204,543 to "Depreciation" expense which, when combined with the amount in Column (B) and multiplied by 2 in Column (E) conforms to the detail for this account as depicted in the Company's general rate application at Exhibit No. ___ (OPL-31, CAH-4), Schedule 21, line 13.

Q. Please explain Columns (E) through (G) of Exhibit No. ___ (RGC-3).

A. Column (E) annualizes the totals in Column (D) by multiplying column (D) figures times 2, to yield a full 12 month impact. The 103,015,886 annual throughput barrels on line 38 are close to the 105,897,682 barrels the Company uses in its general rate case, as depicted in Exhibit No. ___(OPL-31, CAH-4), Schedule 22.1, line 32.

On a going forward basis, Olympic's $1,765,617 Net Income Before Tax on line 27, Column (E), must be offset against the $8,880,000 pre-tax net income requirement on line 27, Column (G) provided to me by Staff witness Mr. Elgin. See page 21 of Exhibit No. ___ (KLE-1T). The resulting Staff recommended total Company interim revenue increase is $7,114,383 (19.48 %) as shown on line 1, Column (F). The Washington intrastate portion is $2,719,829, as indicated on line 42 of my Exhibit No. ___ (RGC-3).

Q. Does this conclude your testimony?

A. Yes.