

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

OLYMPIC PIPE LINE COMPANY,
TESORO REFINING AND MARKETING
COMPANY AND CONOCOPHILLIPS
COMPANY,

For an Order Approving Terms of a
Settlement Agreement Between Olympic,
Tesoro and ConocoPhillips and Approving
Rates Set Pursuant to Said Agreement

DOCKET TO-031973

In the Matter of the Petition of

OLYMPIC PIPE LINE COMPANY,

For an Order Approving Terms of a Storage
Lease Agreement with BP West Coast
Products, LLC

DOCKET TO-081785

SETTLEMENT AGREEMENT

1 The Parties to this Settlement Agreement (“Agreement”) are Olympic Pipe Line Company (“Olympic”) and the Staff of the Washington Utilities and Transportation Commission (“WUTC Staff”) (collectively, “the Parties”). This Agreement is dated as of November 7, 2008.

BACKGROUND

2 This Agreement addresses two dockets before the Washington Utilities and Transportation Commission (“WUTC” or “Commission”) that are interrelated. The first docket is Docket TO-031973, which involves a Tariff Settlement Agreement. On

December 23, 2003, the Commission approved a Tariff Settlement Agreement (“TSA”) by and among Olympic, Tesoro Refining and Marketing Company (“Tesoro”) and ConocoPhillips Company (“CP”) in Docket No. 031973. Since that time, Olympic has filed changes to its intrastate tariff rates pursuant to the mechanisms set forth in the TSA. After review, the Commission has consistently allowed those rates to go into effect without suspension.

3 On September 23, 2008, Olympic, Tesoro, and CP executed Amendment No. 7 to the TSA (the “Amended TSA”). Among other things, if approved, the Amended TSA would have the effect of removing from the rate calculation 85% of Olympic’s Bayview facility as of January 1, 2009.

4 The Amended TSA, like its predecessor, provides a cost-based methodology for the continued economic regulation of Olympic based upon criteria agreed to between Olympic and certain of its principal shippers that enable Olympic and all shippers to understand and to predict the transportation costs associated with transporting products to the marketplace.

5 The second docket is Docket TO-081785, a transfer of property application. Olympic seeks Commission permission to lease pipeline property to Olympic’s affiliate, BP West Coast Products LLC (“BPWCP”). On August 11, 2008, Olympic and its affiliate, BPWCP, executed a Lease Storage Agreement (“Lease”) that would allow BPWCP to use 85% of the Bayview facility. The Lease is directly and inextricably related to Olympic’s agreement to remove 85% of the Bayview facility from the rate base under the Amended TSA. Accordingly, a proposed resolution of the two dockets is presented in this Agreement. Olympic anticipates that the Lease will provide revenue enabling Olympic to accommodate the tariff revenue reduction inherent in Bayview’s removal from the rate base.

6 In order to secure the required regulatory approvals of both the Amended TSA and the Lease, on October 1, 2008, Olympic filed with the Commission the following documents:

- i. Motion of Olympic Pipe Line Company to Reopen Docket No. TO-031973 to Allow Filing of Petition for Approval of Amendment No. 7 to Tariff Settlement Agreement of 2003;
- ii. Petition of Olympic Pipe Line Company for Approval of Amendment No. 7 to Tariff Settlement Agreement of 2003 ("Petition for Approval of Amended TSA");
- iii. Petition of Olympic Pipe Line Company for Approval of Transfer of Property ("Petition for Lease Approval"), assigned Docket TO-081785;
- iv. Notice of Affiliate Transaction re Lease of Bayview Facility (submitted via letter), assigned Docket TO-081786; and
- v. Motion of Olympic Pipe Line Company for Protective Order.

7 On October 6, 2008, the Commission issued a standard Protective Order, allowing Olympic to file under seal an unredacted copy of the Lease that is the subject of its Petition for Lease Approval.

8 On October 14, 2008, the Commission issued an Order of Consolidation and Notice of Prehearing Conference, consolidating Olympic's two petitions into a single proceeding under Docket No. TO-031973 and setting a Prehearing Conference for November 10, 2008.

9 On October 17, 2008, Olympic filed with the Commission, under seal, an unredacted copy of the Lease.

10 As of the date of this Agreement, no third party has appeared or moved to intervene in Docket No. TO-031973. This Agreement is made subject to being potentially negated in the event a party intervenes and does not enter into the Agreement. If no party intervenes on or before the November 10, 2008, prehearing conference, then this Agreement shall be binding according to its terms and subject to Commission approval as stated below.

COMMISSION STAFF REVIEW

11 Since receiving Olympic's above-referenced filings, WUTC Staff has reviewed the Petitions and Olympic's other submissions, compared the terms of the proposed Amended TSA and the original TSA, requested and received additional data from Olympic and conducted such further analysis as WUTC Staff deemed appropriate.

12 WUTC Staff has determined that the Amended TSA preserves the essence of the original mechanism of the TSA for setting rates with certain changes that the parties thereto have deemed appropriate in light of their experience to date under the TSA rate-setting methodology. WUTC Staff also has determined that the Amended TSA, like the TSA, contains no provision intended to supplant or otherwise limit the authority of the Commission to review and approve or disapprove rates as it deems necessary and appropriate. In particular, Section 1.4(e) of the amended TSA states that "no provision of this Amended TSA supersedes or restricts [the regulatory authority of the Commission]." In other words, the Amended TSA does not affect WUTC Staff's ability to recommend any particular action to the Commission regarding any tariff filing Olympic may make thereunder, nor does it affect the Commission's ability to take any particular action with respect to such a filing.

13 WUTC Staff has concluded that the TSA, as amended by Amendment No. 7, is in the public interest and is prepared to recommend its approval to the Commission.

14 WUTC Staff also has reviewed the Lease, filed in Docket TO-081785, and has concluded it meets the public interest standard in RCW 81.12, and WUTC Staff is prepared to recommend the Commission approve the application in that docket.

Based on the foregoing, THE PARTIES AGREE AS FOLLOWS:

15 The Parties agree that in Docket TO-031973, the Commission should issue an order granting Olympic's motion to reopen that docket, and approving the Amended TSA by and between Olympic, Tesoro, and CP as filed (*i.e.*, in the form submitted to the Commission as Exhibit 1 to Olympic's Petition for Approval of Amended TSA).

16 The Parties agree that in Docket TO-081785, the Commission should issue an order approving Olympic's application to transfer property, *i.e.*, the lease between Olympic and BPWCP, as filed in its un-redacted form as submitted to the Commission, under seal, on October 17, 2008.

17 The Parties confirm that this Agreement does not restrict or limit in any way the Commission's regulatory authority and, notwithstanding the terms of the Amended TSA, expressly recognize the Commission's authority to adjust Olympic's intrastate tariff rates at a later date upon due consideration of all appropriate factors.

18 The Parties further confirm that this Agreement is subject to Commission approval, which retains full authority to approve or disapprove the Amended TSA in Docket TO-031973, and the transfer of property application in Docket TO-081785.

19 Although it is not anticipated, it is possible that during the process of obtaining approval of the Amended TSA before the Federal Energy Regulatory Commission (FERC), the Amended TSA may be modified. Olympic agrees the Commission shall have the opportunity and the authority to consider and adopt in Washington any such modifications, even if such modifications are agreed to, ordered or implemented after the Commission enters its orders in these dockets. Olympic agrees to file with the Commission in writing in these dockets a pleading notifying the Commission of any such modification, within five

calendar days after FERC of any such modification. Within ten calendar days of the filing of such notice, any Party shall file with the Commission their response, including their position on the modification. The Commission will decide at that point the procedures for addressing the modification.

GENERAL PROVISIONS

20 Each of the Parties acknowledge that the Commission's approval of this Agreement, the Amended TSA and the transfer of property application shall not bind the Commission in other proceedings with respect to the determination of prudence, just and reasonable character, rate or ratemaking treatment, or public interest of services, accounts, costs, investments, any particular expenditures, or actions referenced in these dockets.

21 The Parties shall cooperate in submitting this Agreement promptly to the Commission for acceptance, and shall cooperate in developing a supporting narrative statement as required by WAC 480-07-740(2). The Parties agree to support the Agreement throughout this proceeding, according to the procedures determined by the Commission for its review of the Agreement. For example, if the Commission calls for a panel presentation, each Party will provide a witness or witnesses for the panel. Each Party will also provide a legal representative or representatives to support the Agreement at any Commission hearing on the Agreement, and will recommend that the Commission issue an order adopting the settlement terms contained herein. In the event the Commission rejects this Agreement or accepts this Agreement upon conditions not contained herein, the provisions of WAC 480-07-750(2) shall apply.

22 The Parties agree to support the terms and conditions of the Agreement as described above. The Parties understand that this Agreement is subject to Commission approval, and

is not effective before such approval (other than those provisions regarding the Parties' agreements regarding the processing of the Agreement before the Commission).

23 The Parties have negotiated this Agreement as an integrated document. Accordingly, the Parties recommend that the Commission adopt this Agreement in its entirety.

24 The Parties shall cooperate in submitting this Agreement promptly to the Commission for acceptance so that it may be approved and implemented as soon as possible. The Parties shall request that if the Commission decides to hold a hearing on the Agreement, that the Commission set such a hearing promptly, and shall each make a witness or witnesses available to answer questions in support of this Agreement or to provide such other indication of support as the Commission or Administrative Law Judge requests. The Parties agree to cooperate, in good faith, in the development of such other information as may be necessary to support and explain the basis of this Agreement and to supplement the record accordingly.

25 If the Commission rejects all or any material portion of this Agreement, or adds additional material conditions, each Party reserves the right, upon written notice to the Commission and all Parties to this proceeding within seven (7) days of the date of the Commission's Order, to withdraw from the Agreement. If any Party exercises its right of withdrawal, this Agreement shall be void and of no effect, and the Parties will support a joint motion to reinstate an expedited procedural schedule for those dates specifically suspended by the Commission pursuant to the above request.

26 The Parties enter into this Agreement to avoid further expense, uncertainty, and delay. By executing this Agreement, no Party shall be deemed to have accepted or consented to the facts, principles, methods, or theories employed in arriving at the

Agreement, and except to the extent expressly set forth in this Agreement, no Party shall be deemed to have agreed that such Agreement is appropriate for resolving any issues in any other proceeding.

27 This Agreement may be executed by the Parties in several counterparts, through original and/or facsimile signature, and/or scanned and emailed signature, and as executed shall constitute one agreement.

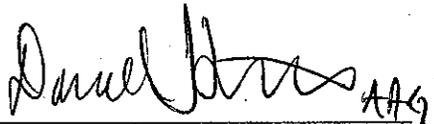
28 This Agreement is entered into by each Participating Party as of the date entered below.

DATED this 7th day of November, 2008.

OLYMPIC PIPE LINE COMPANY

STAFF OF WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION

By: _____
Its: _____


By: Donald T. Trotter
Its: Counsel

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DATED this 7th day of November, 2008.

OLYMPIC PIPE LINE COMPANY

STAFF OF WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION


By: Arthur W. Harrigan
Its: Counsel

By: _____
Its: _____