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February 18, 2004

Washington Utilities and Transportation Commission
1330 South Evergreen Park Drive S.W.
Olympia, WA 98504-7250

Attn: Ms. Lisa Lloyd

Re: Docket No. TO - 011472
Petition of Olympic Pipe Line Company
For an Order Modifying Prior Commission Order

Dear Ms. Lloyd:

Attached for filing please find one original and twelve (12) copies of Olympic's Petition for an Order Modifying Prior Commission Order. The Petition requests the Commission modify the Twentieth Supplemental Order dated September 27, 2002 ("Final Order") in this Docket by striking paragraphs 351, 352, and 414 of the Final Order, which require Olympic to report to the Commission regarding various economic events.

Please let us know if you have any questions in this matter.

Very truly yours,

DANIELSON HARRIGAN LEYH & TOLLEFSON LLP

Michael Hemphill

MH/amk

Enclosures

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. OLYMPIC PIPE LINE COMPANY Respondent.	Docket No. TO-011472 PETITION OF OLYMPIC PIPE LINE COMPANY FOR AN ORDER MODIFYING PRIOR COMMISSION ORDER

IDENTITY OF PETITIONER

1. The Petitioner is Olympic Pipe Line Company ("Olympic"). Olympic is engaged in the business of transporting petroleum products within and beyond the State of Washington as a common carrier. In accordance with WAC 480-07-390, Petitioner's name and address is shown below. Please direct all correspondence related to this Petition as follows:

Olympic Pipe Line Company

Bobby Talley, President
2201 Lind Avenue, Suite 270
Renton, WA 98057-1800
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RELEVANT STATUTES AND REGULATIONS

2. This Petition is based upon, or may bring into issue, the following statutes and rules: RCW 81.04.070, RCW 81.04.100, and WAC 480-07-875.

RELIEF REQUESTED

3. Olympic respectfully petitions the Washington Utilities and Transportation Commission (the "Commission") for an order modifying the Commission's Twentieth Supplemental Order dated September 27, 2002 ("Final Order") in Docket No. TO-011472 by striking paragraphs 351, 352, and 414 of the Final Order. Those paragraphs require Olympic to report to the Commission regarding various economic events.

4. Briefly, the reason for this petition is that Olympic, along with two of its major unaffiliated shippers, Tesoro Refining and Marketing Company ("Tesoro") and ConocoPhillips Company ("CP"), recently entered into a Settlement Agreement ("Agreement") pursuant to which Olympic will report important economic events to Tesoro, CP, and the Commission on a schedule that is not identical with the schedule established in the Final Order. A copy of the Agreement is attached hereto as Exhibit A. On December 2, 2003, Olympic, Tesoro, and CP filed a joint Petition seeking the Commission's approval of the Agreement as in the public interest ("Joint Petition") (Docket No. TO-031973). On December 23, 2004 the Commission granted the Joint Petition, and approved the Agreement as in the public interest. A copy of the Commission's Order approving the Agreement is attached hereto as Exhibit B. The Agreement became effective with this approval, thereby rendering the reports required in

paragraphs 351, 352, and 414 of the Final Order largely duplicative of reports required under the terms of the Agreement.

STATEMENT OF FACTS

5. Olympic is a Delaware corporation that owns and operates a common carrier pipeline transporting petroleum products both within and outside the State of Washington. Olympic is a stock company owned by ARCO Midcon LLC, a subsidiary of BP Pipelines (North America) Inc. ("ARCO Midcon"), and Shell Pipeline Company LP ("Shell"), formerly Equilon Pipeline Company LLC.

6. The rates charged by Olympic for intrastate transportation of petroleum products are subject to regulation by the Commission under Title 81 of the Revised Code of Washington and the associated state regulations.

7. On October 31, 2001, Olympic filed a tariff with the Commission seeking increases in Olympic's intrastate rates. Tesoro and Tosco were permitted to intervene and filed objections to the petition. On January 31, 2002, the Commission granted an interim increase of a lower amount than Olympic had requested, subject to an investigation and potential refunds to shippers. Following hearings, on September 27, 2002 the Commission issued its Final Order lowering Olympic's proposed intrastate rate increase. The Final Order, paragraphs 351, 352, and 414, required Olympic to make various reports to the Commission until relieved of that obligation by Commission order or by letter from the Commissions' Executive Secretary. Olympic has fully complied with these requirements in the Final Order.

8. Olympic has entered into the Agreement dated November 7, 2003 with Tesoro and CP, who, along with affiliates of Olympic's owners (the owners are ARCO Midcon and Shell), are major shippers of petroleum products over Olympic's pipeline system. The Agreement became effective upon the Commission's December 23, 2003 Order finding the Agreement as appropriate and consistent with the public interest.

ARGUMENTS IN FAVOR OF RELIEF

9. The Agreement contains provisions making some of the reporting requirements in the Final Order duplicative and others unnecessary, for reasons stated below.

10. The Final Order was based in part on findings that Olympic faced exceptional challenges which resulted in an incomplete factual record to support its 2001 petition for an increase in rates. The Commission considered its Final Order as providing an incentive to Olympic to work on its financial and operational problems and to return for further rate adjustments at an appropriate time. (See Final Order, paragraph 8.)

11. The Final Order (paragraph 351) required that Olympic provide the following reports to the Commission on a quarterly basis:

- Status and level of any pressure restrictions imposed by regulators and the actual average maximum operating pressure achieved by operating by month.
- Total throughput, including the three months prior to the month of the report, with actual data.
- Status of Bayview: whether it is being used as a batching facility and, if so, the additional throughput gained by its use, by month.

12. Paragraph 352 of the Final Order also requires prompt reports to the Commission of changes in operating pressure, the status of Bayview, and changes in the equity ratio.

13. The Agreement includes provisions that address the issues summarized in the previous two paragraphs, as follows:

- Section 2.1 provides that Olympic must use its best efforts to secure regulatory approval of 100 percent maximum allowable operating pressure within three years and to provide an annual report to Tesoro and CP detailing its efforts in this respect.
- Section 1.3 provides that Olympic must report its total throughput (for the previous 12 months) each quarter.
- Section 2.2 provides that Bayview may remain in Olympic's rate base only if it is placed into its intended service on or before September 30, 2004. If Bayview is not put into service by that deadline, either Tesoro or CP may demand that Olympic submit a new tariff removing Bayview from the rate base and certain procedures are then prescribed for resolution of any such demand.

14. The Agreement further provides in Section 1.4 that Olympic will file future tariffs with the Commission during the term of the Agreement at least annually (additional Interim tariff filings may also be required pursuant Section 1.3), and that Olympic is required to provide Tesoro and CP with detailed backup information supporting those filings regarding the factors set forth in section 3 of the Agreement, including operating expense, depreciation expense, amortization of AFUDC, return on rate base, income tax allowance, and net carryover.

15. The Agreement does not require Olympic to report any changes in its actual equity ratio (i.e., "capital structure"), which is required in Paragraph 352 of the Final Order. Moreover, Olympic's two shareholders (ARCO Midcon and Shell) have converted approximately $108,686,704.95 of Olympic's debt to equity. This conversion was

completed in June, 2003. Given the Commission's approval of the Agreement which stipulates capital structure, and the conversion of debt to equity, there is no longer the need to monitor Olympic's actual capital structure during the period of the Agreement.

16. Olympic requests that the Commission remove the reporting requirements of the Final Order, paragraphs 351, 352, and 414 because the purpose of those requirements have, upon the Commission's approval of the Agreement, been supplanted by the requirements of the Agreement.

17. Nothing in this Petition is intended to affect any rights the Commission has to require Olympic to provide reports to the Commission or to inspect Olympic's accounts, books, or documents, or to request that such information be provided for inspection.

PRAYER FOR RELIEF

Olympic respectfully requests that the Commission issue an order removing the reporting requirements stated in the Final Order, paragraphs 351, 352, and 414.

DATED this 18th day of February, 2004.

Respectfully submitted,

OLYMPIC PIPE LINE COMPANY

Arthur W. Harrigan, Jr.
Karl F. Oles
Michael M.K. Hemphill
Danielson Harrigan Leyh & Tollefson LLP

INDEX TO EXHIBITS

1. **Settlement Agreement dated November 7, 2003**

2. **Order Granting Relief Requested in Joint Petition; Approving Settlement Agreement**

EXHIBIT

A

SETTLEMENT AGREEMENT

Among the Parties:

Olympic Pipe Line Company

Tesoro Refining and Marketing Company

Conoco Phillips Company

Dated November 7, 2003

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Exhibit A
Index to Defined Terms

SETTLEMENT AGREEMENT
Olympic Pipeline Company

This Settlement Agreement ("Agreement") is executed as of this 28th day of October 2003, among Olympic Pipe Line Company ("Olympic"), Tesoro Refining and Marketing Company ("Tesoro"), and ConocoPhillips Company ("CP") (hereinafter sometimes referred to collectively as the "Parties," or individually a "Party"), to be effective as of the latest date on which each of the Federal Energy Regulatory Commission (the "FERC"), the Washington Utilities and Transportation Commission (the "WUTC"), and the bankruptcy court having jurisdiction over Olympic's bankruptcy case (described below) (the "Bankruptcy Court") have issued a final order approving this Agreement (the "Effective Date") from which no timely appeal has been filed.

INTRODUCTION

The Parties

Olympic is a Delaware corporation with offices at 2201 Lind Avenue S.W., Suite 270, Renton, WA 98057-1800. Olympic owns and operates a common carrier pipeline that transports petroleum products from points in the State of Washington to points within the State of Oregon and to points within the State of Washington. Olympic is a stock company owned by ARCO Midcon LLC, a business unit of BP Pipelines (North America) Inc., and Shell Pipeline Company, LLC, formerly Equilon Pipeline Company LLC.

Tesoro is a wholly owned subsidiary of Tesoro Petroleum Corporation. Tesoro is a Delaware corporation with offices at 3450 South 344th Way, Suite 100, Auburn, WA 98001. Tesoro owns and operates a refinery in Anacortes, Washington, and ships petroleum products there refined on Olympic's pipeline system.

CP, successor by merger to Tosco Corporation ("Tosco"), is a Delaware corporation with offices at 600 N. Dairy Ashford, Houston, TX 77079. CP owns and operates a refinery in Ferndale, Washington, and ships petroleum products there refined on Olympic's pipeline system, as did Tosco prior to its merger into CP.

Interstate and Intrastate Rate Regulation

The rates charged by Olympic for the interstate transportation of petroleum products are subject to regulation by the FERC under the Interstate Commerce Act. 49 U.S.C. (App.) §§ 1, et seq., and regulations promulgated by the FERC thereunder. The rates charged by Olympic for the intrastate transportation of petroleum products are subject to regulation by the WUTC under Titles 80 and 81 of the Revised Code of Washington and regulations promulgated by the WUTC thereunder.

Proceedings before the FERC and United States Court of Appeals

On May 30, 2001, Olympic filed a tariff with the FERC seeking increases in Olympic's interstate rates. Those increases were protested by Tesoro and Tosco. Those increases were accepted for filing by the FERC in Docket No. IS01-441-000 and became effective on July 1, 2001, subject to an investigation and refunds to shippers. By order issued on November 26, 2002, Olympic's tariff filing was summarily rejected, and Olympic was ordered to pay refunds to shippers of all revenues collected under the rate increases. On December 20, 2002, Olympic filed a petition for review of the FERC's decision in the United States Court of Appeals for the District of Columbia Circuit ("Court of Appeals"). That petition is currently pending in Case No. 02-1383.

On March 31, 2003, Olympic filed a tariff with the FERC seeking increases in Olympic's interstate rates. Such increases were protested by Tesoro and CP (which had, by then, merged with Tosco), and were accepted for filing in Docket No. IS03-218-000 subject to an investigation and refunds to shippers. Olympic filed its prepared direct testimony on July 11, 2003.

Proceedings before WUTC

On October 31, 2001, Olympic filed a tariff with the WUTC seeking increases in Olympic's intrastate rates. Those increases were protested by Tesoro and Tosco. The WUTC suspended the increases on November 16, 2001, in Docket No. TO-011472. On January 31, 2002, the WUTC granted an interim increase of a lower amount than that requested by Olympic, subject to an investigation and refunds to shippers. Following hearings, by order served September 27, 2002, the WUTC rejected Olympic's proposed intrastate rate increases, enjoined Olympic from continuing to collect the interim increases authorized by the WUTC, and required Olympic to file tariff revisions that would return to shippers over a two-year period the difference between the revenues collected under the interim increase and the rate increase authorized by the WUTC – an increase of 2.52 percent. Judicial review of the WUTC's order was sought by Olympic but has since been dismissed with prejudice.

Bankruptcy

On March 27, 2003, Olympic filed for reorganization under Chapter 11 of the United States Bankruptcy Code in the Western District of Washington in Docket No. 03-14059. Subsequent to such filing, Olympic ceased making refund payments to Tesoro, CP and other shippers, notwithstanding the orders of the FERC and WUTC ordering such refunds. CP has filed an adversary proceeding, Docket No. A03-01229 (the "Adversary Proceeding"), in

Olympic's case in the Bankruptcy Court with respect to Olympic's cessation of refund payments and CP's claimed right to offset or recoup such refunds from transportation charges due to Olympic.

Settlement

The Parties have agreed to resolve their differences with regard to matters pertaining to interstate rate refunds in Docket No. IS01-441-000, currently pending before the Court of Appeals in Case No. 02-1383, and intrastate refunds ordered by the WUTC in Docket No. TO-011472; this resolution will also resolve the issues presented in the Adversary Proceeding. The Parties have also agreed to resolve their differences with regard to the matters pertaining to interstate rates during the term of this Agreement and refunds currently pending before the FERC in Docket No. IS03-218-000. The Parties wish to terminate any and all litigation regarding such rates, and to avoid controversies during the term of this Agreement regarding such rates according to the terms set forth in this Agreement. In addition, the Parties wish to avoid controversies during the term of this Agreement regarding Olympic's intrastate rates, and have agreed to new intrastate rates as well as a methodology for the determination of intrastate rates during the term of this Agreement according to the terms set forth in this Agreement. This Agreement does not resolve matters not specifically referenced in this Agreement, and CP specifically reserves, (a) CP's business interruption action pending in the United States District Court for the District of Washington under the name *Tosco Corp. v. Olympic Pipe Line Co., et al.* (Case No. C02-0495 consolidated with Case No. C01-1310), (b) CP's claims asserted in such action, or (c) the related motion for relief from the stay pending in Olympic's case in the Bankruptcy Court or treatment of such claims under a plan of reorganization; and, Olympic

specifically reserves its defenses to such action, claims, related motion for relief from the stay, or proposed treatment of such claims under a plan of reorganization.

Accordingly, in consideration of the mutual promises set forth in this Agreement, and for good and valuable consideration, the receipt of which is hereby acknowledged with the intent of being legally bound, the Parties hereby agree as follows:[1]

[1] All capitalized terms that appear in this Agreement are either proper names or are defined in the text of this Agreement. An index of these terms is attached as Exhibit A.

ARTICLE I
SETTLEMENT RATES

Section 1.1. Settlement

If approved by the FERC, the WUTC, and the Bankruptcy Court, as provided herein, this Agreement shall settle with prejudice (a) the interstate tariff rate disputes that are currently pending before: (i) the Court of Appeals arising out of FERC Docket No. IS01-441-000 and (ii) the FERC in Docket No. IS03-218--000, and (b) the Adversary Proceeding. Within 20 days after the Effective Date, but after the filing by Olympic required in Section 1.2, below, the Parties shall file all necessary pleadings to cause Olympic's petition in the Court of Appeals with respect to FERC Docket No. IS01-441-000, Tesoro's and CP's protests in FERC Docket No. IS03-218-000, and CP's claims asserted in the Adversary Proceeding to be dismissed with prejudice.

Section 1.2. Initial Tariff Rates

(a) Within 10 days after the Effective Date, Olympic shall file the Initial Tariff Rates for the FERC and WUTC tariffs in form and substance of Exhibits 1.2 (FERC) and 1.2 (WUTC), respectively. Olympic shall file such Initial Tariff Rates to become effective on the earliest date that will permit the FERC and WUTC tariffs to become effective simultaneously, and that will coincide with the beginning of Olympic's next monthly billing cycle. ("Tariff Effective Date").

(b) Total Revenue Requirement for the purpose of determining Initial Tariff Rates is stipulated to be $51 million.

(c) The Tariff Revenues prior to the setting of the Initial Tariff Rates is stipulated to be $37,689,864.

(d) Total deliveries for the purpose of determining Initial Tariff Rates are stipulated to be 105,560,957 barrels.

(e) The rate increase for the Initial Tariff Rates is stipulated to be 35.3149%.

(f) Initial Tariff Rates set under this Agreement for interstate and intrastate movements will remain in effect until June 30, 2004, or the effective date of any Interim Tariff Filing whichever is earlier.

Section 1.3. Interim Tariff Filings

(a) At the end of each calendar quarter beginning with the first calendar quarter following the Effective Date of this Agreement, Olympic shall calculate current throughput as provided in this Section. "Current Throughput" will be the total deliveries for the prior 12 calendar months ending with the calendar quarter for which the calculation of Current Throughput is made. The determination of Current Throughput will be completed and the results provided to Tesoro and CP within 45 days following the end of each calendar quarter. "Base" Throughput shall be the total deliveries for the 12-month period used for the calculation of the Tariff rates then on file. The Current Throughput and Base Throughput upon which the Initial Tariff Rates are based shall be deemed to be 105,560,957 barrels. In the event that the Current Throughput determined according to this Section exceeds the Base Throughput by at least two percent, Olympic shall make an Interim Tariff Filing calculated as provided in subsection (c) of this Section revising the then-current interstate and intrastate tariff rates based upon the increased throughput.

(b) In the event that, in any calendar quarter, current throughput decreases by greater than 15 percent as the result of failures, outages, fires, strikes, embargoes, explosions, earthquakes, terrorism, floods, wars, the elements, labor disputes, government requirements, de-rating, civil or military authorities, acts of God, a public enemy, or other similar causes beyond Olympic's reasonable control, then upon request by any Party, the Parties must meet within 20 days to consider the rate impact of such events. If the Parties do not reach a satisfactory resolution of the rate impact of such events, then any Party has the right to seek relief through the Dispute Resolution process in Section 4.5.

(c) Manner of Calculating Interim Tariff Rates. Interim interstate rates and interim intrastate rates shall be determined by proportional adjustment of each of the tariff rates then on file. Each tariff rate shall be adjusted by the ratio of the Base Throughput to the Current Throughput if the Current Throughput exceeds the Base Throughput by at least two percent. These Interim Tariff Rates shall be filed no later than 60 days following the end of the quarter in which the Current Throughput exceeds the Base Throughput by at least two percent, to be effective no later than 90 days following the end of the quarter.

Section 1.4. Annual Tariff Filings

(a) While this Agreement is in effect, in addition to Interim Tariff Rates required to be filed pursuant to Section 1.3 of this Agreement, by May 30 of each year (after 2003) Olympic shall file its interstate and intrastate rates for the period beginning on the immediately following July 1 and ending on June 30 of the following year or on the date on which this Agreement expires or is terminated as provided below. Such interstate and intrastate rates shall be calculated using the Olympic Settlement Methodology ("OSM") set forth in Section 3 of this Agreement and the cost of service model in Exhibit 1.4(a). Nothing in this Agreement, however,

prohibits Olympic from filing an interstate or intrastate rate that is less than the maximum rate calculated in accordance with the OSM.

(b) During the term of this Agreement and unless as otherwise agreed among all Parties, Olympic shall not make any filing with the FERC or the WUTC except that Olympic is expressly permitted to make (i) filings set forth in Sections 1.1, 1.2, 1.3, 1.4, and 2.2 of this Agreement; (ii) filings for a new tariff for any product movement for which a tariff is not already in place; and (iii) filings to change its rules and regulations, other than material changes to the current nomination process. The phrase "material changes" in Section 1.4(b)(iii) of this Agreement shall include any change of allocated capacity from a historical usage basis to another basis, except that a performance based incentive/penalty plan that adjusts allocated capacity among shippers based on the ratio of actual shipments to nominated shipments shall not be considered a material change. Disputes concerning the rate filings set forth in Section 1.2, 1.3, 1.4, and 2.2 of this Agreement are subject to the dispute resolution provisions set forth in Section 4.5(b) and (c) of this Agreement. All other disputes are subject to the dispute resolution provisions set forth in Section 4.5(a) of this Agreement and, if not resolved under those provisions, subject to the normal regulatory or judicial process.

(c) During the term of this Agreement, neither CP nor Tesoro will file with the FERC, the WUTC, the successor of either, or any other agency or court, any protest, petition or complaint, or seek to have suspended or otherwise contest the effectiveness of any rate filings set forth in Sections 1.2, 1.3, 1.4, and 2.2 of this Agreement and further agree to address disputes relating to such rate filings in accordance with the dispute resolution provisions set forth in Section 4.5(b) and (c) of this Agreement. CP and Tesoro expressly reserve the right to file with the FERC, the WUTC, the successor of either, or any other agency or court, any protest, petition,

enforcement action, or complaint in response to any filing other than those set forth in Sections 1.2, 1.3, 1.4, and 2.2 of this Agreement.

(d) The Parties intend that the rate filings set forth in Sections 1.2, 1.3, 1.4, and 2.2 of this Agreement will be the only rate filings made by Olympic, and that FERC's approval of this Settlement shall include its waiver of its regulations regarding indexed rate filings during the term of this Agreement.

(e) The Parties acknowledge that any filings with the FERC or the WUTC are subject to their normal regulatory authority and that no provision of this Agreement supersedes or restricts their authority in any regard.

Section 1.5. Provision of Information

(a) Olympic will provide Tesoro and CP with all supporting data necessary to calculate the maximum rate no less than 60 days prior to Olympic's filing of new interstate or intrastate rates while this Agreement is in effect. Tesoro or CP, upon written request to Olympic, shall be permitted to verify the data used in calculating the new maximum rate by a procedure agreed upon by the Parties, which shall include, if requested, an audit consisting of direct examination of original source data identified by Olympic as being all of the data relied upon in calculating the maximum rate. CP and/or Tesoro shall communicate to Olympic any question about, or disagreement with, the data used by Olympic or the manner in which such data was used to calculate the maximum rate. CP and/or Tesoro and Olympic shall seek in good faith to resolve the questions or disagreements raised by Tesoro and CP prior to the rate filing.

(b) Insofar as any of these data would fall within the prohibition against disclosure set forth in Section 15(13) of the Interstate Commerce Act, such data shall be disclosed only to

reviewing representatives as defined in the protective order issued in FERC Docket Nos. IS01-441-000 and IS03-218-000 and WUTC Docket No. T0-011472.

(c) The agreement by CP and Tesoro to refrain from protest, complaint, or seeking suspension of rates filed in conformity with the procedures provided for in this Agreement shall be without prejudice to the rights of CP and/or Tesoro to: (1) conduct independent audits of the company source data relied on by Olympic for the Annual Tariff Adjustment, and (2) initiate a Dispute Resolution process based on the results of any such audit for the purpose of compelling Olympic to revise its tariff as determined by the outcome of such Dispute Resolution process, including providing refunds as determined to be appropriate based on the results of any such Dispute Resolution proceeding. During the pendency of any such Dispute Resolution proceeding, the tariff arising from any current rate filing by Olympic made in conformity with the procedures called for under this Agreement shall remain in effect.

ARTICLE II
OPERATIONAL UNDERTAKINGS BY OLYMPIC

Section 2.1. Best Efforts to Achieve 100 Percent MAOP Operation

(a) Olympic's pipeline is currently operating subject to a limitation of 80 percent of Maximum Allowable Operating Pressure ("MAOP") pending completion of certain internal line inspections and related excavation, examination and repair work by Olympic.

(b) Olympic will use its best efforts to accomplish the prerequisites for and secure regulatory approval of 100 percent MAOP operation, and to return to such operation (subject to normal safety factors, all applicable rules and restrictive orders pertaining to pipeline safety and periodic pressure reductions incident to normal 100 percent MAOP operation) by three years from the Effective Date (the "100 percent Operation Date"). Olympic shall provide an annual progress report to all current shippers detailing its efforts to return to normal 100-percent MAOP operation.

(c) If Olympic has not returned to 100 percent MAOP operation by the 100 percent Operation Date, Tesoro and/or CP may initiate the Dispute Resolution procedures set forth in Section 4.5 of this Agreement, to resolve any question whether Olympic has met its best efforts obligation set forth in Section 2.1(b). Olympic shall have the burden of proof that it has undertaken its best efforts to return to 100 percent MAOP operation by the 100 percent Operation Date. If, but only if, the arbitration results in a decision that Olympic has not met its best efforts obligation, then Tesoro and/or CP shall have the right within 30 days of the issuance of the arbitration award to terminate this Agreement upon no less than 90 days' written notice to Olympic of the intent to terminate. Such termination, when effective, shall be binding on all

Parties; provided however, if Olympic returns to 100% MAOP operation prior to the 100% Operation date, the right to terminate shall no longer be effective.

(d) Such termination shall be the sole remedy under this Agreement available to Tesoro and/or CP for any failure by Olympic to use its best efforts to accomplish the purposes described in Section 2.1(b).

Section 2.2. Bayview to Be Placed in Intended Service

Bayview shall remain in Olympic's Rate Base unless Bayview has not been placed into intended service on or before September 30, 2004. If Bayview is not in intended service by September 30, 2004, then upon written request of any Party, Olympic shall remove Bayview from the Rate Base, in the amount specified in Section 3.8(c) of this Agreement, and the maximum rate shall be recalculated and new interstate and intrastate rates reflecting only the reduced rate base shall be filed to be effective October 31, 2004, unless and until Bayview is placed into its intended service. Placing Bayview in intended service shall consist of placing Bayview into service for its intended purposes as a facility available for use for batching operations, flow rate maintenance, improved flexibility and efficiency in pipeline operations, and storage and other functions incident to these functions. Satisfaction of the intended service requirement shall not require achieving any defined throughput metric. In attempting to render Bayview operational for such purposes, Olympic shall use its best efforts to encourage the cooperation of its shippers in providing throughput.

ARTICLE III
REFUNDS AND TARIFF RATE METHODOLOGY

Section 3.1. Refunds

(a) **FERC Tariff Rates Effective May 1, 2003 (Docket No. IS03-218-000).** Refunds for the FERC tariff rates in effect since May 1, 2003, shall be determined based on the difference between the FERC Initial Tariff Rate as defined in Section 1.2 and the FERC tariff rates effective May 1, 2003. For petroleum products delivered after April 30, 2003, Olympic shall compute the refunds it owes each Shipper through the date on which the FERC Initial Tariff Rates become effective. The refund owed to each shipper shall equal the product of the tariff per barrel paid for each delivery minus the FERC Initial Tariff Rate for each delivery multiplied by the corresponding number of barrels for each delivery. Interest shall be calculated on all refunds owed for the period May 1, 2003, until the date of payment. The refunds and interest shall be paid ratably to all shippers on a non-discriminatory basis commencing on the first day of the calendar month immediately following the Tariff Effective Date such that 100 percent of the refund obligation plus interest shall be paid on or before May 1, 2006.

(b) **FERC and WUTC Refund Balances**

The FERC and WUTC Refund Balances for shipments prior to May 1, 2003 shall be paid in equal monthly installments commencing on the first day of the calendar month immediately following the Tariff Effective Date, and completed no later than October 1, 2006. To the degree any shipper has previously withheld payments of its tariff rates to offset Olympic's cessation of previously ordered refunds, such withheld payments shall be considered the payment of refunds

until the withheld payments are recaptured by Olympic in full, at which point, equal monthly installments of the remaining refunds will commence to be paid by Olympic.

(c) **Interest on Refunds**

Interest shall be calculated on all such refunds until the date of payment. Interest shall be computed as follows:

(i) Interest on FERC Refund Balances shall be calculated in accordance with the FERC's order establishing the refund obligation and its regulations except the time limits for repayment are as established in Sections 3.1 (a) and (b), and

(ii) Interest on WUTC Refund Balances shall be calculated in accordance with the WUTC's Order establishing the refund obligation and its regulations, except the time limits for repayment are as established in Section 3.1 (b).

Section 3.2. Total Revenue Requirement

The tariff revenues that Olympic is entitled to for a 12-month period is the sum of: Operating Expense; Depreciation Expense; Amortization of AFUDC; Return on Rate Base; Income Tax Allowance; and Net Carryover. These elements of Total Revenue Requirement are defined below.

Section 3.3. Operating Expense

Operating Expense shall mean only those normally recoverable, reasonable, non-Whatcom Creek expenses related to providing regulated service that would properly be included in Account 610 under the Uniform System of Accounts ("USOA") prescribed for oil pipeline companies subject to the provisions of the Interstate Commerce Act, 18 C.F.R. pt. 352 (2003), and the actual expenditures accrued in prior periods in accordance with generally accepted accounting

principles and the USOA, but excluding any provision for the depreciation or amortization of a capitalized cost and accruals anticipated in future periods. Determination of Operating Expense included in the Total Revenue Requirement requires placing amounts recorded in Account 610 into four categories:

(a) **Pass-Through Operating Expenses-** The Parties agree that, for the purposes of this Agreement only, operating expenses relating to fuel and power, Drag Reduction Agent and amounts in Project Expense shall be fully recoverable in the year incurred.

(b) **Transition Costs** – The Parties agree that, for the purposes of this Agreement only, the costs incurred for the purposes of: (i) resolving 2003 rate matters before the FERC and WUTC, including the costs of obtaining approval of this Agreement ("Transition Costs-Rate Litigation"); and (ii) complying with the requirements of Chapter 11 for costs incurred during the current Chapter 11 filing ("Transition Costs-Bankruptcy") shall be recoverable in rates. The total amounts recovered annually in rates from both the Transition Costs-Rate Litigation and the Transition Costs-Bankruptcy shall be limited to the lesser of the Annual Maximum Amortization of Transition Costs or the Other Operating Expenses Deficit Amount.

The Annual Maximum Amortization of Transition Costs shall be the sum of the Annual Maximum Amortization of Transition Costs-Bankruptcy and Annual Maximum Amortization of Transition Costs-Rate Litigation as defined below.

(i) Annual Maximum Amortization of Transition Costs-Bankruptcy shall be Transition Costs- Bankruptcy divided by 24, but not to exceed the actual amount incurred. Transition Costs-Bankruptcy shall be the costs relating to the Olympic bankruptcy proceeding recorded in FERC Account 610.520.

(ii) Annual Maximum Amortization of Transition Costs - Rate Litigation shall be Transition Costs-Rate Litigation divided by 3, but not to exceed the actual amount incurred. Transition Costs-Rate Litigation shall be the costs relating to Olympic rate matters recorded in FERC Account 610.520.

(c) **Excluded Costs** – The Parties agree that, for the purposes of this Agreement only, direct costs attributable to the Whatcom Creek accident and its aftermath ("Whatcom Creek Costs") have been and shall be in the future excluded from the Cost of Service as defined below. To minimize potential disagreement regarding the classification of specific costs, the Parties agree that, for the purposes of this Agreement only, Whatcom Creek Costs include the following specific costs: Environmental remediation and restoration costs related to the accident; payment of claims arising from the accident, including personal injury, wrongful death, property damage and business interruption claims; regulatory and criminal fines or penalties imposed as a result of the accident or of conduct allegedly precipitating the accident; litigation costs incurred in defending claims and criminal prosecution.

(d) **Included Costs** – The Parties agree that, for the purposes of this Agreement only, the following post-2002 costs may be included within the COS: Costs of complying with the Corrective Action Order ("CAO") of June 18, 1999, and subsequent amendments of the CAO or related regulatory requirements; costs of complying with the plea agreement (i.e., the consent decree and injunctive relief) Olympic has entered into with the Department of Justice and/or of complying with related agreements with any municipal, state, and/or federal agencies and/or regulatory authorities; increased insurance expense; costs associated with returning the pipeline to 100 percent MAOP operation; costs of inspection, testing, repair or replacement of the pipeline or of systems associated with pipeline operations; costs of regulatory requirements for

continued operation brought by reason of the accident or by reason of conduct allegedly precipitating the accident; other costs incurred to enable the pipeline to continue in operation or otherwise required by regulatory authorities.

(e) **Other Operating Expense** – The Parties agree that, for the purposes of this Agreement only, amounts recorded in Account 610 shall be classified as "Other Operating Expense" excluding, however, the amounts referenced in subsection (a) ("Pass-Through Operating Expense"), subsection (b) ("Transition Costs"), subsection (c) ("Excluded Costs"), and amounts recorded in Account 610.540 ("Depreciation and Amortization"). Other Operating Expense shall be includable in the cost of service subject to limitation of Maximum Allowable Other Operating Expense.

(i) Maximum Allowable Other Operating Expense –The maximum Other Operating Expense for the12-month period that may be included in the Total Revenue Requirement. The calculation of the Maximum Allowable Other Operating Expense shall be determined by the following equation:

2003 tariff filing =$19.5 million

2004 tariff filing = [($19.5 million * [(1 + CPI-U ^{2003})]

2005 tariff filing = [($19.5 million * [(1 + CPI-U ^{2003}) * (1 + CPI-U^{2004})

200N tariff filing = [($19.5 million * [(1 + CPI-U ^{2003}) * (1 + CPI-U^{2004})…* (1 + CPI-U^{N})

(ii) Other Operating Expense Excess - In the event that Olympic's Other Operating Expenses exceed the amount determined by the Maximum Allowable Other Operating Expense by more than $750 thousand, this excess amount shall be defined as the Other Operating Expenses Excess. Olympic may request that the other Parties allow

inclusion of all or a portion of the Other Operating Expenses Excess in the Total Revenue Requirement. If Olympic does not receive the requested relief, it has the right to provide a Notice of Termination to the other Parties. If no satisfactory resolution related to the Other Operating Expenses Excess is reached within 90 days of the Notice of Termination, Olympic may terminate this Agreement.

(iii) Other Operating Expenses Deficit – In the event that Olympic's Other Operating Expenses are less than the Maximum Allowable Other Operating Expense, Olympic may amortize any remaining balance of Transition Costs and add to Other Operating Expense an amount for Amortization of Transition Costs. The amounts to be added for Amortization of Transition Costs shall be the lesser of Annual Maximum Amortization of Transition Costs or the Other Operating Expenses Deficit.

(1) Other Operating Expenses Deficit shall be the amount by which the Maximum Allowable Other Operating Expense exceeds Other Operating Expenses.

(2) Amortization of Transition Costs

(a) Amortization of Transition Costs – Bankruptcy: If the Other Operating Expenses Deficit is greater than or equal to the Annual Maximum Amortization-Bankruptcy, then the Amortization of Transition Costs-Bankruptcy shall be the lesser of the Annual Maximum Amortization of Transition Costs-Bankruptcy or the Unamortized Balance Rate-Bankruptcy. Otherwise, the Amortization of

Transition Costs-Bankruptcy shall be the Other Operating Expenses Deficit.

(b) Amortization of Transition Costs – Rate Litigation: If the Amortization of Transition Costs-Bankruptcy is greater than or equal to the Other Operating Expenses Deficit, then the Amortization of Transition Costs-Rate Litigation is $0. Otherwise, the Amortization of Transition Costs-Rate Litigation shall be the lesser of Annual Maximum Amortization of Transition Costs-Rate Litigation; Other Operating Expenses Deficit, minus Amortization of Transition Cost-Bankruptcy; or Unamortized Balance Transition Cost-Rate Litigation.

(3) Unamortized Transition Costs: For any 12-month period, the Unamortized Transition Costs shall be the sum of the Unamortized Balance of Transition Costs-Rate Litigation and Unamortized Balance of Transition Costs-Bankruptcy at the end of the prior period.

(a) Unamortized Balance Transition Costs-Bankruptcy at the end of a period shall be the Unamortized Balance Transition Costs-Bankruptcy at the beginning of the period, minus Amortization of Transition Costs – Bankruptcy for the period.

(b) Unamortized Balance Transition Costs-Rate Litigation at the end of a period shall be the Unamortized Balance Transition Costs-Rate Litigation at the beginning of the period, minus Amortization of Transition Costs – Rate Litigation for the period.

Section 3.4. Depreciation Expense

(a) The Depreciation Expense equals the annual amount reported in the "Grand Total for Debits" to Account No. 610.540 of the USOA as described in 18 C.F.R. § 352.4.

(b) Accumulated Depreciation at the beginning of a year equals Accumulated Depreciation at the beginning of the previous year, plus Depreciation Expense for the previous year, net of Depreciation retirements and other adjustments recorded in Account No. 31 of the USOA as described in 18 C.F.R. § 352.4. The balance of Accumulated Depreciation at the beginning of 2003 is stipulated to be $50,350,905.

(c) The Accumulated Depreciation for Bayview Terminal as of beginning of the year 2003 is $2,362,036. Annual Depreciation Expense shall be determined by multiplying that Carrier Property in Service for Bayview by the Amortization Rate. In the event that Bayview is transferred to Non-Carrier Property in accordance with the terms and conditions in Section 2.2, Accumulated Depreciation Balance as of the transfer date will be transferred to Non-Carrier Property. See Exhibit 3.4 (c).

(d) Amortization Rate is the Depreciation Expense divided by the arithmetical averages of Carrier Property excluding land for the beginning of the year and the end of the year.

Section 3.5. Amortization of AFUDC

Amortization of AFUDC shall be equal to the sum of the annual Equity AFUDC Amortization, plus the annual Debt AFUDC Amortization.

(a) The Annual Equity AFUDC Amortization for a year shall equal the Accumulated Equity AFUDC at the beginning of that year, plus one half of the Additions to Equity AFUDC for that year, multiplied by the Amortization Rate for that year.

(b) Accumulated Equity AFUDC at the beginning of a year shall equal the Equity AFUDC Amortization Base at the beginning of the previous year, plus Additions to Equity AFUDC for the previous year.

The Accumulated Equity AFUDC at the beginning of 2003 is stipulated to be $3,936,145

(c) Additions to Equity AFUDC for a year shall equal the Equity AFUDC Base for that year, multiplied by the Return on Equity.

(d) The Equity AFUDC Base for a year shall equal the average CWIP balance for that year, multiplied by the Equity Ratio.

(e) Accumulated Amortization of Equity AFUDC for a year shall equal the Accumulated Amortization of Equity AFUDC from the prior year, plus Amortization of Equity AFUDC for the current year.

The balance of Accumulated Amortization of Equity AFUDC at the beginning of 2003 is stipulated to be $438,343.

(f) Annual Debt AFUDC Amortization for a year shall equal the Accumulated Debt AFUDC at the beginning of that year, plus one half of the Additions to Debt AFUDC for that year, multiplied by the Amortization Rate for that year.

(g) Accumulated Debt AFUDC at the beginning of a year shall equal the Debt AFUDC Amortization Base at the beginning of the previous year, plus Additions to Debt AFUDC for the previous year.

The Accumulated Debt AFUDC at the beginning of 2003 is stipulated to be $2,431,828.

(h) Additions to Debt AFUDC for a year shall equal the Debt AFUDC Base for that year, multiplied by the Return on Debt.

(i) The Debt AFUDC Base for a year shall equal the average CWIP balance for that year, multiplied by the Debt Ratio.

(j) Accumulated Amortization of Debt AFUDC for a year shall equal the Accumulated Amortization of Debt AFUDC from the prior year, plus Amortization of Debt AFUDC for the current year.

The balance of Accumulated Amortization of Debt AFUDC at the beginning of 2003 is stipulated to be $259,181.

Section 3.6. Return on Rate Base

(a) Return on Rate Base shall be equal to the product of the Average Rate Base, multiplied by the Weighted Cost of Capital.

(b) Weighted Cost of Capital shall be defined by the following three parameters stipulated to by the parties while this Agreement is in effect:

(i) Capital Structure shall consist of 50 percent equity (Equity Ratio) and 50 percent debt (Debt Ratio).

(ii) Cost of Debt shall be 7.80 percent.

(iii) Nominal Rate of Return on Equity shall be 12.38 percent in the Initial Period.

Return on Equity shall be10.00 percent real. The nominal rate of return to be applied to Rate Base is the sum of 10.00 percent plus, for each subsequent period, the change in the CPI-U annual rate of inflation for the prior year as measured December to December without seasonal adjustment as published by the Bureau of Labor Statistics, U.S. Department of Labor for the preceding calendar year calculated for each subsequent period on a non-cumulative basis.

The Weighted Cost of Capital (at a 50% Capital Structure) shall be the average of the Cost of Debt and the Nominal Rate of Return on Equity.

Section 3.7. Rate Base

(a) Rate Base for a year shall be determined as of the end of that year and shall equal the Carrier Property at the end of that year, minus the Accumulated Depreciation at the end of that year, plus Accumulated AFUDC, minus Accumulated Amortization of AFUDC, plus the Working Capital balance, minus the ADIT Balance at the end of that year.

(b) The Average Rate Base is the arithmetic average for Rate Base at the end of the preceding calendar year and the Rate Base at the end of the current calendar year.

Section 3.8. Carrier Property

(a) The balance of Carrier Property at the beginning of a year equals Carrier Property at the beginning of the previous year, plus Additions to Carrier Property for the previous year. Carrier Property at the beginning of 2003 is stipulated to be $138,272,430.

(b) Additions to Carrier Property for a year equals the amount by which additions during that year to USOA carrier property accounts 101 through 186 exceed net proceeds from retirements of property and other adjustments or transfers during that year from USOA carrier property accounts 101 through 186. Additions to Carrier Property shall be only those normally recoverable, reasonable capital expenses related to providing the regulated service that would properly be Additions to Carrier Property under the USOA.

(c) The Carrier Property Balance for Bayview as of beginning of the year 2003 is stipulated to be $24,036,869 as shown in Exhibit 3.4(c).

Section 3.9. Accumulated Deferred Income Taxes

(a) The Federal ADIT Balance at the beginning of a year equals the Federal ADIT Balance at the beginning of the previous year, plus the Tax Effect of Federal Timing Difference for the previous year.

(b) The Tax Effect of Federal Timing Difference for a year shall equal the Federal Income Tax Rate for that year, multiplied by the Federal Tax Timing Difference for that year.

(c) The Federal Tax Timing Difference for a year shall equal the Federal Tax Depreciation for that year, minus Depreciation Expense for that year, minus IDC Amortization for that year, plus TEFRA Adjustment Amortization for that year.

(d) Federal Tax Depreciation for a year shall equal the sum of Federal Tax Depreciation for Additions to Carrier Property for the current and all previous years. Federal Tax Depreciation for Additions to Carrier Property for the current or a previous year shall equal the appropriate Federal Tax Depreciation Factor, multiplied by the sum of Additions to Carrier Property, plus Additions to Debt AFUDC for that current or previous year. The appropriate

Federal Tax Depreciation Factor, which varies with the time elapsed between the year of the Additions to Carrier Property and the year for which Federal Tax Depreciation is being calculated, shall be the 15-year schedule using the half-year convention according to the IRS Modified Accelerated Cost Recovery System ("MACRS") as shown in Exhibit 3.9(d). If Federal income tax laws are amended after the date of this Agreement, the Federal Tax Depreciation Factor Schedule in Exhibit 3.9(d) may be renegotiated pursuant to Section 3.13. The ADIT Balance at the beginning of 2003 is stipulated to be $11,901,259.

Section 3.10. Working Capital Balance

The Working Capital Balance shall be based on the average balances in USOA accounts 16, 17 and 18. The Working Capital Balance at the beginning of 2003 is stipulated to be $2,030,244.

Section 3.11. Income Tax Allowance

(a) The Income Tax Allowance equals the product of the Federal Income Tax Factor, multiplied by the Federal Income Tax Base for that year.

(b) The Federal Income Tax Factor shall equal the ratio of the Federal Income Tax Rate to the difference of one, minus the Federal Income Tax Rate.

(c) The Federal Income Tax Rate shall equal the maximum rate of tax applied by the United States Government to net income derived by a corporation from the operation of a common carrier petroleum pipeline within the United States.

(d) The Federal Income Tax Base for a year shall equal the Equity Portion of Return on Rate Base for that year, plus the Equity AFUDC Amortization for that year.

Section 3.12. Net Carryover

(a) The Net Carryover is equal to the sum of the Revenue Excess (Deficit), plus the Interest on Revenue Excess (Deficit).

(b) The Revenue Excess (Deficit) is based on the difference between the Tariff Revenue as reported in USOA Account 600, Sub accounts 200-260, (except Sub account 250) minus the Total Revenue Requirement for the period that the prior tariff(s) have been in effect. If Tariff Revenue exceeds the Total Revenue Requirement for the period, there is a Revenue Excess. If Tariff Revenue is less than the Total Revenue Requirement for the period, there is a Revenue Deficit. Upon termination of this Agreement, the final Net Carryover shall be trued up in a manner resolved through the Dispute Resolution process in Section 4.5.

(c) The Interest on Revenue Excess (Deficit) equals the Revenue Excess (Deficit) for a year, multiplied by the interest rate used to compute Interest on Revenue Excess (Deficit).

(d) The interest rate used to compute Interest on Revenue Excess (Deficit) for a year is based on the rate of interest obtained by taking the arithmetic average of the 12 monthly prime rates to the nearest one hundredth of one percent, as published in the Federal Reserves' "Selected Interest Rates" (Statistical Release H 15) for the 12 months starting with January of the previous year and ending with December of the previous year, and increasing the annual interest rate resulting from the previous step to reflect a quarterly compounding of interest.

Section 3.13. Effect of Income Tax Amendments

(a) If Federal income tax laws are amended after the date of this Agreement, the Income Tax Allowance and the ADIT Balance will continue to be calculated as described in Section 3.9, unless a Party to this Agreement objects to the manner of computation within one year of such

amendment. Upon written notice by a Party of an objection, the Parties have 60 days in which to negotiate a new method of determining the Income Tax Allowance and the ADIT Balance. This method will be consistent with the following requirements:

(i) The Federal Income Tax shall equal the maximum of tax applied by the United States Government to net income derived by a corporation from the operation of a common carrier petroleum pipeline within the United States.

(ii) It shall be assumed that the most accelerated methods of depreciation allowed under Federal income tax laws will be used and that other elections under Federal income tax laws will be made in a manner that will minimize or defer the total income tax liability to the maximum extent possible;

(iii) Any imbalance in the ADIT Balance (positive or negative) arising from a change in tax rates shall be amortized using the Amortization Rate described in Section 3.4(d);

(iv) Federal Tax Timing Differences shall be reflected in the ADIT Balance, not in the Income Tax Allowance;

(v) Applicable provisions of Federal income tax law shall be taken into account consistent with Federal regulatory policy;

(b) If the Parties are unable to agree on a new method of determining the Income Tax Allowance and the ADIT Balance within 60 days after written notice by a Party pursuant to subsection (a) of this section, the method for calculating these amounts will be determined by a mutually agreed-upon, independent expert who shall apply the requirements above to the then-applicable Federal tax laws.

Section 3.14. Determination of Tariff Rates – Generally

(a) The determination of rates for each Movement in each jurisdiction for which tariffs are posted shall be based on an equal percentage increase across all existing FERC and WUTC tariffs. For the purpose of this Agreement, Adjusted Tariff Rate shall be determined as follows:

(i) The Adjusted Tariff is the tariff rate in effect prior to the Tariff Effective Date for the Annual Tariff Filing, multiplied by the Rate Adjustment Factor.

(ii) The Rate Adjustment Factor shall be determined by dividing the Total Revenue Requirement by forecasted Tariff Revenue.

(b) The determination of tariff rates for which tariff rates are posted shall be rounded to the nearest $0.0001 per barrel.

ARTICLE IV
GENERAL PROVISIONS

Section 4.1. Term of this Agreement

(a) The Parties shall be bound to devote their best efforts to secure approval of this Agreement in its entirety by the FERC, the WUTC and the Bankruptcy Court upon execution of this Agreement by all Parties and shall be bound by all other terms of this Agreement upon the Effective Date.

(b) This Agreement shall terminate automatically if the Effective Date has not occurred before February 1, 2004; otherwise this Agreement shall continue in full force and effect for five (5) years from the Effective Date, after which this Agreement shall continue from year to year subject to termination upon at least one year notice in advance of the fifth or subsequent anniversary of the Effective Date given by any Party. Upon mutual agreement of the Parties, the notice period may be changed.

(c) If Parties have not reached a new agreement prior to the termination date, Olympic's interstate and intrastate rates shall be those in effect upon the termination date subject to complaint before the FERC and/or WUTC by Tesoro and/or CP; provided, however, that the relief sought in any such complaint shall be prospective from the termination date only and shall not include reparations or damages for any period prior to the termination date.

Section 4.2. Duty to Defend This Agreement

All Parties will use their best efforts, each Party at its own expense, to defend the validity and enforceability of this Agreement.

Section 4.3. Approval of this Agreement

(a) If the FERC or the WUTC do not approve this Agreement and do not waive any regulation inconsistent with the terms and conditions of this Agreement, or if the FERC, the WUTC, or the Bankruptcy Court rejects any provision of this Agreement, or if the Bankruptcy Court, the FERC or the WUTC makes approval of this Agreement contingent upon any modification of any provision of this Agreement, or if a court reviewing an order of the FERC, the WUTC, or the Bankruptcy Court regarding this Agreement shall take any of such actions, any Party may terminate this Agreement by written notice to the other Parties within 30 days after any of the actions specified herein have occurred. In the event of such termination, Olympic shall have no further obligation to file or maintain its interstate or intrastate rates in conformance with the maximum rates determined under the OSM, and neither Olympic nor Tesoro and CP shall be bound by this Agreement in any regard.

(b) If during the period in which this Agreement is in effect, an agency or court shall thereafter declare invalid any provision of this Agreement that has an impact upon a Party, then the Parties will undertake to negotiate diligently and in good faith to make reasonable and appropriate modifications to this Agreement so as to achieve substantially the same benefits for each Party that were originally contemplated by this Agreement, consistent with the order invalidating such provision. If the Parties are unable to agree on such modifications within a period of 30 days after the order invalidating such provision is issued (or such additional period as the Parties shall mutually agree in writing) then any Party may terminate this Agreement by giving written notice to the other Parties within 30 days after the expiration of the period of negotiations.

Section 4.4. No Precedential Effect

No part of this Agreement including, without limitation, the Term, the characterizations of expenses as recoverable or non-recoverable in rates, or the underlying methodology shall have any precedential effect for any other matter. This Agreement shall not constitute an admission by the Parties concerning any question of fact or law, and this Agreement does not represent in any way the position of any Party regarding pipeline regulation in general or its application. Further, in the event that any interstate rate or intrastate rate established pursuant to this Agreement is ever challenged by any third party who is not a signatory to this Agreement, nothing in this Agreement or in the OSM set forth in Article II may be relied upon or cited as evidence to establish that such interstate or intrastate rate is excessive, discriminatory, or otherwise unlawful, or to set a new rate or rates that differ from those determined under this Agreement.

Section 4.5. Dispute Resolution

(a) Any controversy or claim arising under this Agreement shall first be subject to good-faith negotiation among the Parties and then, if such negotiation shall fail to resolve the controversy or claim, shall be subject to either binding arbitration among the Parties or the normal legal or judicial process, whichever is provided for in this Agreement. A controversy or claim may be raised by any Party at any time by serving notice upon the other Parties. Within 10 days from the receipt of the notice of controversy or claim, the Parties shall hold an initial meeting to discuss how best to proceed to resolve the controversy or claim through good-faith negotiation. Unless otherwise agreed among all Parties, the Parties shall have 30 days from the date of the initial meeting to resolve the controversy or claim. In the event a controversy or claim relating to a filing set forth in Sections 1.2, 1.3, 1.4, and 2.2 of this Agreement is not

resolved within this 30-day negotiation period, a Party may initiate binding arbitration by serving an Arbitration Demand on the other Parties. In the event a controversy or claim relating to any other matter is not resolved within this 30-day negotiation period, any Party may file with the FERC, the WUTC, the successor of either, or any other agency or court, any protest, petition or complaint or any other action allowable at law or equity.

(b) Except as otherwise agreed by all Parties, the arbitration of a controversy or claim relating to a filing set forth in Sections 1.2, 1.3, 1.4, and 2.2 of this Agreement shall be conducted by a single arbitrator with both substantial and suitable experience related to rate regulation. The arbitrator is to be selected by mutual agreement among the Parties within 10 days from the date of the Arbitration Demand. In the event of a failure to agree, any Party may petition the American Arbitration Association ("AAA") to name an arbitrator. Such arbitration shall be held in Seattle, Washington, in conformity with the Commercial Arbitration Rules of the AAA and administered by the AAA. Except as may otherwise be agreed by all Parties, such arbitration shall be completed and a final decision issued within 90 days of the date on which Arbitration Demand was served. The arbitrator shall issue a final decision consistent with the Commercial Arbitration Rules of the AAA and the regulations and precedent governing the arbitration of FERC and WUTC tariff and rate matters, except that the final decision shall not include an award of special, consequential, or punitive damages. The Parties agree that the final decision of the arbitrator shall be final as amongst the Parties and further agree to waive any and all rights to appeal or request review of the final decision by any court or regulatory agency. In the event the arbitrator's final decision requires enforcement, any Party may petition for enforcement of the final decision through the appropriate channels established by the FERC or the WUTC.

(c) The fees and expenses of the arbitrator and costs of AAA's administration shall be borne by the party who is deemed by the arbitrator to be the losing party. Other than arbitrator fees and expenses and AAA administration costs, each party shall be responsible for its own costs and attorney fees regardless of outcome.

(d) No provision of this Agreement is intended to nor shall be interpreted to limit the regulatory jurisdiction or authority of the FERC or the WUTC in any regard. In the event a dispute arises under the terms of this Agreement that is not resolved prior to the termination of this Agreement, the dispute resolution provisions of this Section 4.5 shall apply and shall survive the termination of this Agreement.

Section 4.6. Parties in Interest

This Agreement shall be binding upon and inure solely to the benefit of the Parties and their respective successors and assigns. No obligation under this Agreement shall be for the benefit of or be enforceable by any third party.

Section 4.7. Construction of Agreement

(a) The language of this Agreement shall, in all cases, be construed according to its fair meaning and not strictly for or against either Party. Headings of articles and sections of this Agreement are solely for the convenience of the Parties and are not a part of this Agreement. This Agreement shall be governed by, and construed in accordance with the laws of the State of Washington.

(b) Attached hereto as Exhibit 1.4(a) illustrating the OSM is an electronic disk with the computer program used to calculate rates along with a printout of a computer program with formulae based on stipulated amounts and projected data for calendar year 2003. It is the

understanding of the Parties that the language of this Agreement and the calculations shown in Exhibit 1.4(a) are consistent. If any question shall arise as to the consistency of the language of this Agreement and the calculations shown in Exhibit 1.4(a), the Parties shall resolve such controversy in accordance with Section 4.5 of this Agreement.

(c) The language of this Agreement, together with the electronic disk and printout shown in Exhibit 1.4(a), shall control over any other computer program or other document prepared by the Parties, or any of them, describing or explaining this Agreement or the OSM.

Section 4.8. Amendment

This Agreement may be modified, amended or supplemented only by a written instrument executed by the Parties.

Section 4.9. Notices

Any notice required or permitted by this Agreement shall be effective when deposited in the mails, postage prepaid, certified mail, return receipt requested, or when dispatched by overnight delivery service or by facsimile, addressed to the respective Party at its address set forth below:

If to Olympic:

Legal Department
Olympic Pipe Line Company
4101 Winfield Rd.
Warrenville, IL 60555
Attn: General Counsel
Facsimile: (630) 821-3396

If to CP:

ConocoPhillips Company
600 North Dairy Ashford Road
Houston, TX 77079
Attention: Manager/West Coast Supply
Facsimile: (918) 662-5621

If to Tesoro:

Legal Department
Tesoro Petroleum Corporation
300 Concord Plaza Drive
San Antonio, Texas 78216
Facsimile: (210) 283-2400

Legal Department
Tesoro Refining and Marketing Company
3450 South 344th Way, Suite 100
Auburn, WA 98001
Facsimile: (253) 896-8845

A Party may, at any time, substitute a different person or address for that shown in the previous sentence by giving written notice to the other.

Section 4.10. No Waiver

Unless otherwise specifically provided in this Agreement, no failure to exercise, and no delay in exercising, any right, power, or remedy under this Agreement shall impair or be construed as a waiver of this right, power, or remedy of a Party, nor shall any failure to exercise or delay in exercising any right, power, or remedy be construed to be an acquiescence in any breach or default under this Agreement. The rights and remedies specified for the enforcement of this Agreement are cumulative.

Section 4.11. Section Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 4.12. Disclaimer of OSM Model Data

The data for future periods demonstrate the mechanics of the OSM model and while based on prior projections, cannot be warranted to represent actual future performance by Olympic. Olympic's projections are subject to revision in connection with its process of formulating a Chapter 11 disclosure statement and plan of reorganization and the actual level of Olympic's various expenses, project spending and similar matters may be determined or substantially influenced by the provisions of a plan of reorganization in the form it is ultimately confirmed, a matter not strictly in Olympic's control.

Being duly authorized, the Parties execute this Agreement as of the date first written above.

Olympic Pipe Line Company

By: Bobby J. Talley

Printed Name: Bobby J. Talley

Title: President

Tesoro Refining and Marketing Company

By:_____

Printed Name:_____

Title:_____

ConocoPhillips Company

By:_____

Printed Name:_____

Title:_____

Being duly authorized, the Parties execute this Agreement as of the date first written above.

Olympic Pipe Line Company

By:_____

Printed Name:_____

Title:_____

Tesoro Refining and Marketing Company

By: Daniel J Porter

Printed Name: Daniel J. Porter

Title: President Northwest Region

ConocoPhillips Company

By:_____

Printed Name:_____

Title:_____

Being duly authorized, the Parties execute this Agreement as of the date first written above.

Olympic Pipe Line Company

By:_____

Printed Name:_____

Title:_____

Tesoro Refining and Marketing Company

By:_____

Printed Name:_____

Title:_____

ConocoPhillips Company

By:_____

Printed Name: PL FREDERICKSEN

Title: Executive Vice President

EXHIBIT

B

BEFORE THE WASHINGTON STATE 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 NO. TO-031973 ORDER NO. 01 ORDER GRANTING RELIEF REQUESTED IN JOINT PETITION; APPROVING SETTLEMENT AGREEMENT

BACKGROUND

1 Olympic Pipe Line Company (Olympic) is a common carrier petroleum products pipeline company offering intrastate pipeline transportation services in this state. Olympic is subject to regulation by the Washington Utilities and Transportation Commission (Commission) under Title 81 RCW, including Chapters 81.28 RCW and 81.88 RCW. The stock of Olympic is owned by ARCO Midcon LLC and Shell Pipeline Company LP. These two firms are related to companies that own two of the four major refineries in this state and ship products on Olympic's pipeline. Tesoro Refining and Marketing Company (Tesoro) and ConocoPhillips Company (CP) own the other two refineries. They also ship products on Olympic's pipeline. Together, these four shippers account for approximately 80 percent of the throughput.

2 On December 2, 2003, Olympic, Tesoro and CP (Joint Petitioners) filed with the Commission a Joint Petition seeking Commission approval of a Settlement Agreement (Agreement). The Agreement is attached to this Order as Appendix A. The Joint Petition was assigned Docket No. TO-031973. On page 27, paragraph 10 of the Petition, the Joint Petitioners request the Commission to issue an order:

(a) Approving the Agreement as being in the public interest;

(b) Allowing the Initial Tariff Rates for intrastate shipments as defined in the Agreement to go into effect on January 1, 2004, without suspension and by operation of law;

(c) Approving the methodology for preparing future rate filings under the Agreement;

(d) Approving the Total Revenue Requirement "true-up" elements as defined in Sections 3.3 through 3.12 of the Agreement;

(e) Approving the refund schedule in the Agreements as satisfying the requirement in paragraph 349 of the Final Order in Docket No. TO-011472;

(f) Approving the Joint Petition and the associated rate filing in Docket No. TO-032023 as satisfying the requirement in paragraphs 256-258 of the Final Order in Docket No. TO-011472 (requiring Olympic to make a new rate filing between July 1 and October 1, 2004); and

(g) Stating that the Agreement, the Commission's approval of the Agreement, and any subsequent rate filings made pursuant to the Agreement shall have no precedential effect in any future rate proceeding regarding rates in effect beyond the term of the Agreement. *See Settlement Agreement at 40, ¶ 4.5(d).*

3 A tariff filing by Olympic accompanied the Joint Petition. The tariff filing proposes to increase Olympic's intrastate pipeline rates approximately 35.3% or

$5,256,400 annually. The proposed effective date on the tariff is January 1, 2004. The tariff filing was assigned Commission Docket No. TO-032023.

4 The tariff filing in Docket No. TO-032023 is related to the Petition in this docket because the tariff filing is made pursuant to the Agreement for which the Joint Petitioners seek approval.

5 Olympic filed a similar tariff filing, seeking the same rate structure for Olympic's interstate rates, and a similar petition seeking approval of the same Agreement, with the Federal Energy Regulatory Commission (FERC).

6 Olympic is currently in bankruptcy. Olympic filed the Settlement Agreement for approval by the United States Bankruptcy Court, Western District of Washington (Docket No. 03-14059). On November 26, 2003, the Honorable Judge Samuel J. Steiner, Bankruptcy Judge, approved the Settlement Agreement.

PROCEDURAL HISTORY

7 Olympic's tariff filing (Docket No. TO-032023) and the Joint Petition (Docket No. TO-031973) came before the Commission at its regular open public meeting on December 10, 2003. At that open public meeting, the two items were recessed to an open meeting scheduled for December 23, 2003.

8 At the December 23, 2003, open public meeting, the Commission considered the two items. It heard comments from Commission Staff, Olympic, Tesoro and CP. The Commission addresses the Joint Petition and Settlement Agreement in this Order. The Commission took no action in Docket No. TO-032023. Accordingly, the tariff in Docket No. TO-032023 will go into effect on January 1, 2003, as filed, by operation of law, on less than statutory notice (LSN). An order was issued in that docket permitting LSN treatment.

DISCUSSION

9 Having considered the pleadings filed and comments presented in this docket, the Commission approves the Settlement Agreement as appropriate and consistent with the public interest.

10 The Agreement calls for Olympic to file on a periodic basis certain tariff filings prepared pursuant to a methodology described in the Agreement. In general, the methodology in the Agreement is a cost-based, depreciated original cost rate base methodology. All costs and the revenue requirement are subject to a "true-up" mechanism. This will require deferred accounting by Olympic, which is approved by this Order. The Agreement also sets forth a procedure for promptly tracking through to rates the benefits of improved throughput on the pipeline.

11 The Agreement arises under unique circumstances that merit a unique solution. The most significant of these is that Olympic currently is in bankruptcy. The Petition characterizes the Agreement as "a critical element of [Olympic's bankruptcy] reorganization plan that is designed to allow Olympic to remain in business and to return to normal operations," and will improve Olympic's ability to attract financing and emerge from bankruptcy. *Petition at 4, ¶ 8.*

12 In addition, the Agreement addresses certain requirements the Commission imposed on Olympic in the Final Order in Docket No. TO-011472, namely (1) the requirement in paragraph 349 of the Final Order that Olympic pay refunds to repay with interest the difference between the permanent rates set by the Final Order, and the temporary rates set by an earlier order in that docket to address Olympic's request for interim rate relief; and (2) the requirement in paragraphs 256-258 of the Final Order that Olympic file a general rate case between July 1 and October 1, 2004.

13 The Agreement assures that the required refunds will be made, albeit on a longer schedule than the Commission previously ordered. However, the status of the refunds has been uncertain, as Olympic stopped paying refunds when it filed for bankruptcy. The issue of the refunds was a contested issue in Olympic's bankruptcy proceeding. The Agreement resolves that issue in a manner consistent with the spirit of the Commission's Final Order. It makes more certain the shippers' ability to recover the refunds ordered by this Commission.

14 The Agreement also resolves the rate case filing requirement in a manner consistent with the Final Order. The Agreement, if it is implemented as contemplated by the signatories, will provide a mechanism for Olympic to update its costs and throughput, and have those costs and throughput reflected in rates.

15 The Commission has considered these unique factors in determining whether to approve the Agreement. The Agreement is the product of arms length negotiation between Olympic and two large, sophisticated and unaffiliated shippers. The Agreement should result in rate stability and predictability for shippers, and more prompt cost recovery for Olympic.

16 The Joint Petitioners state: "The Agreement makes it more likely that Olympic will: 1) realize the revenue necessary to reorganize its business debts arising from its unfortunate and unique financial circumstances, 2) emerge from bankruptcy, 3) return to normal operating throughput levels, 4) return Bayview [Terminal] facilities to service, and 4) (sic) complete the projects necessary to ensure the continued safe and environmentally sound operation of the pipeline." *Petition at 8, ¶ 22.*

17 The Commission has no information or present basis on which to disagree with the statements in paragraph 16, above, of the Joint Petitioners.

18 The Joint Petitioners further state: "Nothing in the Agreement is intended to supplant or affect the authority of the Commission to review and approve or disapprove [rates filed pursuant to the Agreement]." *Petition at 4, ¶ 6; see also Settlement Agreement at 40, ¶ 4.5(d).*

19 The Agreement does not require the Commission to automatically approve, or allow into effect, any tariff filing filed pursuant to the Agreement. The Agreement is acceptable to the Commission with that explicit understanding. Accordingly, the Commission's approval of the Agreement will allow Olympic the ability to make the described tariff filings, including the proposed deferred cost accounting treatment.

20 The Commission finds that Sections 3.1 (b) and (c) of the Agreement resolve the refund requirement contained in the Commission's Final Order in Docket No. TO-011472, described above, so long as the refund schedule set forth in the Agreement is carried out. The Commission also finds that the associated tariff filing in Docket No. TO-032023 that implements the terms of the Agreement satisfies the rate case filing requirement in the Commission's Final Order in Docket No. TO-011472.

FINDINGS AND CONCLUSIONS

21 Having discussed above in detail the oral and documentary evidence received in this proceeding concerning all material matters to this decision, and having stated general findings and conclusions, the Commission now makes the following summary findings of fact and conclusions of law. Those portions of the preceding detailed discussion that state findings and conclusions pertaining to the ultimate decisions of the Commission are incorporated into the ultimate findings and conclusions by this reference.

22 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, securities, and transfers of public service companies, including pipeline companies. *RCW 80.01.040; RCW 81.04.010; Chapter 81.28 RCW and Chapter 81.88 RCW.*

23 (2) Olympic Pipe Line Company is a pipeline company and is a public service company subject to the jurisdiction of the Commission.

24 (3) Pursuant to RCW 34.05.060 and WAC 480-09-466, the Commission favors the voluntary settlement of disputes. The Commission "will approve settlements when doing so is lawful and when the result is appropriate and consistent with the public interest in light of all the information available to the commission." *WAC 480-09-466.*

25 (4) Staff has reviewed the request in Docket No. TO-031973 and recommended the relief requested in the Joint Petition be granted and the Settlement Agreement be approved.

26 (5) This matter was brought before the Commission at a recessed open meeting on December 23, 2003.

27 (6) After examining the Joint Petition and Settlement Agreement filed by Olympic, Tesoro and CP on December 2, 2003, the Supplement to the Joint Petition filed on December 16, 2003, and considering all pleadings filed and comments presented in this matter, the Commission finds the settlement agreement appropriate and consistent with the public interest, in light of all the information available to the Commission.

ORDER

THE COMMISSION ORDERS:

28 (1) The Commission grants the relief requested in the Joint Petition as follows:

29 (2) The Settlement Agreement between Olympic Pipe Line Company, Tesoro Refining and marketing Company and ConocoPhillips Company dated November 7, 2003, and attached to this Order as Appendix A is approved as in the public interest.

30 (3) The Commission approves Olympic's ability to file with the Commission the tariff filings described in the Agreement.

31 (4) The Commission authorizes Olympic to use deferred accounting to account for the "true-ups" described in the Settlement Agreement. Olympic shall separately identify and maintain these accounts for purposes of implementing the Settlement Agreement, and like all other accounting records of Olympic, these records shall be subject to audit and inspection by the Commission. Neither the Commission's approval of deferred accounting, nor the existence of amounts in deferred accounts, necessarily entitles Olympic to recover those amounts through rates. Olympic must make a rate filing for that purpose, seeking recovery, subject to review by the Commission.

32 (5) The refund schedule in the Settlement Agreement, if completed, satisfies paragraph 349 of the Commission's Final Order in Docket No. TO-011472.

33 (6) The tariff filing in Docket No. TO-032023 satisfies the rate case filing requirement in paragraphs 256-258 of the Commission's Final Order in Docket No. TO-011472.

34 (7) The Commission's approval of the Settlement Agreement, and any rate filings made pursuant to that Agreement, have no precedential effect in any future rate proceeding regarding rates in effect beyond the term of the Agreement.

35 (8) No provision of the Settlement Agreement or this Order approving the Settlement Agreement, is intended, nor shall be interpreted to, limit the regulatory jurisdiction or authority of the WUTC in any regard.

36 (9) The Commission retains jurisdiction over this matter.

DATED at Olympia, Washington, and effective this 23rd day of DECEMBER, 2003.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

PATRICK J. OSHIE, Commissioner