

OLYMPIC PIPE LINE COMPANY

SUPPLEMENTAL REBUTTAL TESTIMONY OF HOWARD B. FOX

Q. Please state your name, business address, and occupation.

A. My name is Howard B. Fox. I am Assistant Treasurer for Olympic Pipe Line Company and supervise the Planning Group for BP Pipelines (North America) Inc. My business address is 801 Warrenville Road, Suite 7033, Lisle, Illinois 60532.

Q. Have you previously presented testimony in this docket?

A. Yes. I presented testimony in Exhibit T- _____ (HBF- 1T), which set forth my responsibilities and qualifications

Q. What is the purpose of your supplemental testimony?

A. The purpose of my supplemental testimony is to (1) bring to the attention of the Commission and the parties an immediate problem with the \$14 million Prudential note and to (2) outline our proposed response to that situation.

Q. What are the developments on the Prudential note?

A. In my rebuttal testimony I said the following about the Prudential note:

“[S]everal things have occurred recently which are indicative of Olympic's worsening financial condition. First, Olympic has been notified by Prudential that it is in further default on its loan. Prudential has also informed Olympic that the National Association of Insurance Commissioners (NAIC) has lowered Olympic's creditworthiness rating from a "1" rating (the highest) to a "5." The result of this downgrade is that Prudential must set aside a significant amount of additional funds – now 20% related to the downgrade as opposed to .3% required previously – in

order to satisfy the requirements of the NAIC. Prudential has indicated that this additional cost of \$400,000 will be passed on to Olympic pursuant to its master agreement with Olympic.”

As mentioned, because of the downgrade and because Prudential has to set aside more funds as security for the debt, that in turn costs Prudential lost interest on the additional amounts it must set aside. As a consequence, Prudential has notified Olympic that it will charge Olympic approximately \$1,200 a day in extra costs. Because Olympic cannot obtain the necessary audited financial statement to comply with the requirements of the Prudential agreement, see section 5A of the Master Shelf Agreement, Prudential has the right to call the entire note due now.

Although I will be in Olympia on Monday at the WUTC hearing room presenting testimony, I am working with Prudential to forestall a call on the note and to negotiate relief from the daily charges under the yield management provisions of the master shelf agreement and to avoid the impact of make whole provisions that could add an additional \$1.2 million in costs to the Prudential note.

Q. How do you intend to deal with this situation?

A. I have been in contact with several Prudential officials in the last few days, including Randy Kob and Prudential’s attorney, Tom Donahue, to deal with this difficult situation regarding the note. I am also working with our attorney, Bill Beaver, and others to develop a response.

Q. What is your proposed response?

A. Olympic has been trying to sell some of its SeaTac assets for over a year, as a way to raise cash. Under the terms of the Prudential note, Prudential has to consent to the sale of any asset. Thus, any sale of the SeaTac assets could be accomplished as part of an overall resolution of

the Prudential note default issue. There may be a way to accelerate the sale of the Sea Tac assets, which also requires Commission approval, and to raise a substantial part of the cash needed to negotiate a buy out the Prudential note.

Q. How would this affect Olympic's request for interim rate relief?

A. A sale of SeaTac assets and a negotiated buy out of the Prudential note would mean that Olympic's financial situation would not become significantly worse. It would not change our need for interim rate relief. Even with the sale of the SeaTac assets, there would be a need to raise additional funds for the shortfall in the amount of the note and the amount to be received from the sale. On an estimated basis, the payoff of the Prudential loan would result in a net outflow in 2002 of \$0.5 million (increase of \$11 million for Sea Tac less \$14 million for payoff of the Prudential loan plus \$.9 million on reduced interest costs on the Prudential loan plus \$1.6 million on avoided fees and charges from Prudential for issues involving NAIC and by calling the note). This assumes no costs to Olympic for terminating the loan earlier than agreed. I have prepared a spread sheet showing the effect of the sale and buy out, which is Attachment A. This matter underscores the need for interim and general rate case relief.

Q. How soon could the sale be accomplished?

A. We are preparing the necessary Commission approval forms and can have those ready for filing later this week. If the Commission approves the sale and if Prudential consents to the sale as part of a negotiated resolution of the note, we could accomplish this by the end of the month.

Q. Does this conclude your present testimony?

A. Yes.