

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

OLYMPIC PIPE LINE COMPANY
LLC, TESORO REFINING &
MARKETING COMPANY LLC, AND
PHILLIPS 66 COMPANY

for Approval of Amendment 8 to the
Tariff Settlement Agreement

DOCKET TO-190267

ORDER 01

ORDER GRANTING PETITION;
APPROVING AND ADOPTING
AMENDMENT 8 TO THE TARIFF
SETTLEMENT AGREEMENT

BACKGROUND

- 1 On December 23, 2003, the Washington Utilities and Transportation Commission (Commission) issued Order 01 in Docket TO-031973, approving a tariff settlement agreement (TSA).¹ Olympic Pipe Line Company LLC (Olympic or Company), Tesoro Refining & Marketing Company LLC (TRMC), and Phillips 66 Company (Phillips 66) are successors of original signers of the TSA.²
- 2 Under the terms of the TSA, any party could terminate the TSA effective December 29, 2008, with advanced notice. While negotiating an amendment to the TSA, the parties entered into six extension amendments that each adjusted the notice period.
- 3 On October 1, 2008, Olympic filed with the Commission in Docket TO-031973 a Petition for Approval of Amendment No. 7 to the TSA.³ On December 4, 2008, the Commission

¹ *In re Petition of Olympic Pipe Line Co., et. al.*, Docket TO-031973, Order 01, Granting Relief Requested in Joint Petition; Approving Settlement Agreement (December 23, 2003). The original signers of the TSA were Olympic Pipe Line Company, Tesoro Refining and Marketing Company, and ConocoPhillips Company.

² We refer in this Order to the parties using their current names as successors to the original signers of the TSA in 2003.

³ A day earlier, on September 30, 2008, Olympic filed with the Commission in Docket TO-081785 a Petition for Approval of Transfer of Property of a Storage Lease Agreement with

issued Initial Order 05 in Docket TO-031973, which approved and adopted Amendment No. 7 to the TSA.⁴

4 On April 8, 2019, Olympic filed with the Commission in Docket TO-190267 a Petition for Approval of Amendment No. 8 to the TSA (Petition).⁵ Olympic, TRMC, and Phillips 66 agree to Amendment No. 8. The amendment is also being proposed to the Federal Energy Regulatory Commission.

5 Proposed Amendment No. 8 makes two primary modifications. First, it establishes a new five-year agreement between the parties. After the initial five-year period, the TSA will continue to be active, but on a year-to-year basis. This five-year timeline or agreement period is the same as the period proposed and approved by the Commission in Amendment No. 7. That period expired in 2013.

6 Second, proposed Amendment No. 8 revises the rate-setting methodology used to determine future rates by changing how the rate adjustment factor (RAF) is calculated. Currently, the RAF is determined by dividing the total revenue requirement by the actual tariff revenue through the end of the prior calendar year. Rates are adjusted every year and become effective on July 1. The RAF uses, therefore, rates from two rate periods, whereby the second of the two rate periods acts to correct any over- or under-collection from the first.

7 Specifically, with the changes to the RAF in the proposed Amendment No. 8, the RAF will be calculated by dividing the total revenue requirement by the product of (i) preceding year actual volumes, and (ii) weighted average rate at the time of the annual

BP West Coast Products, LLC (BPWCP). On October 14, 2008, the Commission consolidated Dockets TO-031973 and TO-081785. *In re Petition of Olympic Pipe Line Co., et. al.*, Dockets TO-031973 and TO-081785 (*Consolidated*), Order 03, Order of Consolidation and Notice of Prehearing Conference (October 14, 2008).

⁴ Initial Order 05 also reopened the docket, approved and adopted a settlement agreement between Olympic and Staff, and approved a transfer of property between Olympic and BPWCP. *In re Petition of Olympic Pipe Line Co., et. al.*, Dockets TO-031973 and TO-081785 (*Consolidated*), Initial Order 05, Granting Motion to Reopen Docket, Approving and Adopting Settlement Agreement, and Granting Petition for Approval of Property Transfer (December 4, 2008).

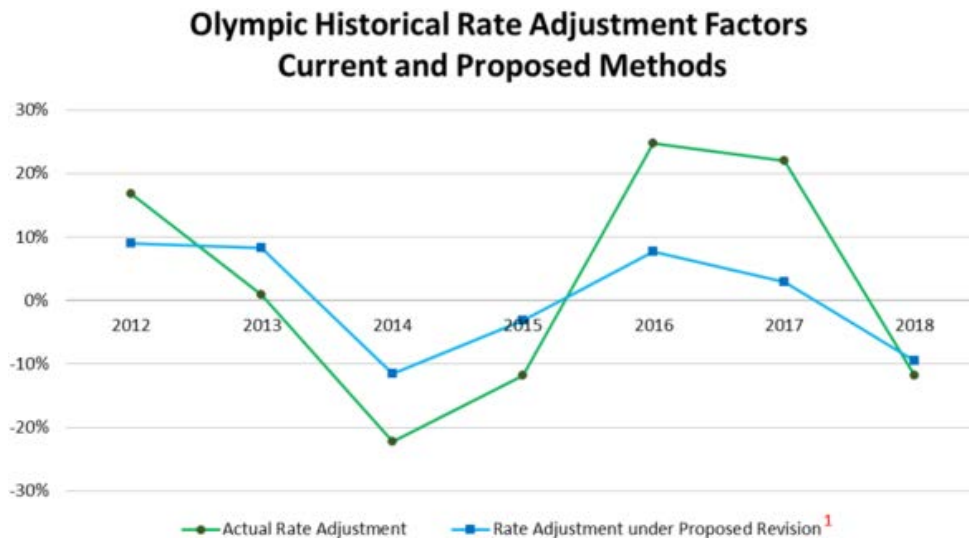
⁵ The Amended and Restated Settlement Agreement containing Amendment No. 8 to the TSA is included as Attachment A to this Order. Attachment A is incorporated into, and made part of, this Order by this reference. In this Order, we briefly summarize proposed Amendment No. 8 to the TSA. To the extent of any arguable inconsistency between our summary and the terms of the TSA, the terms of the TSA (Attachment A) control.

tariff filing of the preceding year. This approach will use the historical 12-month volume like the current calculation, but will use only the current tariff price to calculate the actual tariff revenue. This will prevent any error included in the first six months of the historical test period from affecting the calculation in subsequent years.

8 The aim of the revisions is to reduce the magnitude of the large fluctuations in annual tariff rate changes resulting from the RAF. In the Petition, Olympic explains at least part of the motivation for proposed Amendment No. 8:

The RAF has varied significantly from year to year since its implementation. As an example since 2012, at its highest, the RAF was 25% and at its lowest, it was -22%. As a result of these significant variances in the RAF, resulting in large fluctuations in annual tariff rate changes, shippers have had difficulty with forecasting and budgets and requested that Olympic consider how to moderate such swings.⁶

9 To illustrate how the revision to the RAF calculation would lessen the magnitude of fluctuations in annual tariff rate changes, Commission staff (Staff) created the chart below comparing the results from each of the methods.



⁶ Petition at 4, ¶ 9.

- 10 Other modifications proposed in Amendment No. 8 clarify or update various provisions in the TSA.⁷ The Petition also states that “[n]othing in the Amended and Restated Settlement Agreement is intended to supplant or affect the authority of the Commission to review and approve or disapprove rates.”⁸
- 11 Staff has reviewed the Petition and supporting materials, believes the proposed amendment to the TSA would continue to result in fair, just, reasonable, and sufficient rates, and believes the amendment will increase stability by decreasing rate volatility and confirming a new five-year term for the TSA. Staff recommends the Commission issue an order approving the parties’ proposed Amendment No. 8 to the TSA.

DISCUSSION AND DECISION

- 12 We agree with Staff that Amendment No. 8 to the TSA should be approved. The Commission will approve settlement agreements that are lawful, supported by an appropriate record, and consistent with the public interest in light of all available information.⁹ Amendment No. 8 to the TSA meets this standard.
- 13 Olympic, TRMC, and Phillips 66 all support and have signed Amendment No. 8 to the TSA.¹⁰ Amendment No. 8 will update and clarify language and set a new five-year term for the agreement, after which it will continue year-to-year. Importantly, Amendment No. 8 updates the methodology agreed to by the parties to calculate the RAF. This update will lessen the magnitude of fluctuations in annual tariff rate changes and provide greater stability and predictability for the parties. This will help to ensure that rates remain fair, just, reasonable, and sufficient as provided in the TSA. Accordingly, we find that Amendment No. 8 to the TSA is lawful, supported by an appropriate record, consistent with the public interest, and should be approved and adopted.

⁷ Petition at 5-6, ¶ 11.

⁸ Petition at 6, ¶ 13.

⁹ WAC 480-07-750(2).

¹⁰ Marc Horn, President on behalf of Olympic, Andy Melton, Vice President Light Product Optimization & Strategy on behalf of TRMC, and Maria A. Hooper, SUP-Commercial on behalf of Phillips 66. Petition, Exhibit A, which is also included as Attachment A to this Order.

FINDINGS AND CONCLUSIONS

- 14 (1) The Commission is an agency of the State of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including petroleum pipeline companies.¹¹
- 15 (2) Olympic is a pipeline company and a public service company subject to Commission jurisdiction.
- 16 (3) The Commission has jurisdiction over the subject matter of, and parties to, this proceeding.
- 17 (4) On April 8, 2019, Olympic filed with the Commission a Petition for Approval of Amendment No. 8 to the TSA.
- 18 (5) All parties to the TSA agree to Amendment No. 8 and no party contests it.
- 19 (6) This matter came before the Commission at its regularly scheduled meeting on May 9, 2019.
- 20 (7) The Commission will approve settlement agreements when doing so is lawful, when the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the Commission.¹²
- 21 (8) Proposed Amendment No. 8 to the TSA, which, among other things, establishes a new five-year term to the settlement agreement ending December 31, 2024, and revises the rate-setting methodology used to determine future rates, is lawful, supported by an appropriate record, and is consistent with the public interest. Accordingly, the Commission should grant the Petition.
- 22 (9) The Commission should retain jurisdiction over the subject matter and parties to this proceeding to effectuate the terms of this Order.

¹¹ RCW 80.01.040, RCW 81.04.010, Chapter 81.28 RCW, and Chapter 81.88 RCW.

¹² WAC 480-07-750(2).

ORDER

THE COMMISSION ORDERS:

- 23 (1) Olympic Pipe Line Company, LLC, Tesoro Refining & Marketing Company LLC, and Phillips 66 Company's Petition for Approval of Amendment No. 8 to the Tariff Settlement Agreement of 2003 is GRANTED.
- 24 (2) Amendment No. 8 to the Tariff Settlement Agreement of 2003, included in this Order as Attachment A, and incorporated by reference as if set forth in full here, is approved and adopted.

DATED at Olympia, Washington, and effective May 9, 2019.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner

**ATTACHMENT A – AMENDED AND RESTATED SETTLEMENT AGREEMENT
(AMENDMENT 8 TO TARIFF SETTLEMENT AGREEMENT OF 2003)**