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September 30, 2008

Mr. Dave Danner
Secretary and Executive Director
Washington Utilities and Transportation Commission
P.O. Box 47250
1300 Evergreen Park Drive S.W.
Olympia, Washington 98504-7250

RE: Olympic Pipe Line Company –
Notice of Affiliate Transaction re Lease of Bayview Facility

Dear Mr. Danner:

Olympic Pipe Line Company (“Olympic”) hereby provides notice regarding a proposed Lease Storage Agreement (“Lease”), executed on August 11, 2008, by and between Olympic and BP West Coast Products LLC (“BPWCP”). BPWCP is an affiliate of Olympic’s minority shareholder, ARCO Midcon LLC. As such, the Lease is considered an Affiliate Transaction, requiring notice to the Commission pursuant to RCW 81.16.020 and WAC 480-73-190.

The Lease calls for Olympic to provide storage capacity, consisting of approximately 85% of its Bayview facility, to BPWCP for a five-year term. The Lease cannot become effective unless and until the Commission (a) allows the affected portion of the facility to be removed from the rate base for tariff-setting purposes (during the term of the Lease), and (b) approves the Lease as a proper transfer of common carrier property. These issues are addressed separately in the following two petitions, filed contemporaneously with this Notice:

1. Petition of Olympic Pipe Line Company for Approval of Amendment No. 7 to Tariff Settlement Agreement of 2003 (“Petition for TSA Amendment Approval”) (Docket No. TO-031973); and
2. Petition of Olympic Pipe Line Company for Approval of Transfer of Property re Bayview Lease (“Petition for Lease Approval”).

Olympic requests that the two Petitions (and this Notice) be considered together, as the issues raised therein are closely related and interdependent: the Lease is made expressly contingent upon approval of the Petition for TSA Amendment Approval, and Olympic has the right to terminate the Amended TSA if the Lease is disapproved. Accordingly, in order to place the present Notice in its proper context, Olympic provides the following brief summary of the above-referenced petitions.

1. Petition for TSA Amendment Approval

For approximately the last five years, the Bayview facility has been included in the rate base calculations under the methodology established pursuant to the Tariff Settlement Agreement (“TSA”) by and among Olympic, Tesoro Refining and Marketing Company (“Tesoro”), and ConocoPhillips Company (“CP”). The Commission approved the TSA on December 23, 2003, in Docket No. TO-031973.

Olympic has moved to reopen that Docket for the purpose of allowing the Commission to consider its Petition for TSA Amendment Approval, which requests an order (a) approving Amendment No. 7 to the TSA (“Amended TSA”), which was entered into on or about September 23, 2008, by and among Olympic, Tesoro and CP, and (b) allowing the initial rate filing under the terms of the Amended TSA to go into effect by operation of law without suspension on January 1, 2009.

If approved, the immediate impact of the Amended TSA on rates for all shippers will be to reduce rates below those that would apply under the original TSA as of January 1, 2009, primarily as a result of the provision in the Amended TSA that 85% of Olympic’s Bayview facility will be removed from the rate base for the purpose of the tariff calculation called for under the Amended TSA. This reduction in rate base will apply throughout the term of the Amended TSA.

2. Petition for Lease Approval

Separate and apart from the question of whether a portion of the Bayview facility may be removed from the rate base, Olympic is required to obtain Commission approval of the Lease under RCW 81.12.020 because it contemplates a transfer of common carrier property – *i.e.*, the lease of 85% of the Bayview facility to BPWCP. RCW 81.12.020 provides, in pertinent part, that:

No public service company shall sell, lease, assign or otherwise dispose of the whole or any part of its franchises, properties or facilities whatsoever, which are necessary or useful in the performance of its duties to the public ... without having secured from the commission an order authorizing it so to do[.]

With the foregoing as background, Olympic submits the present Notice in accordance with RCW 81.16.020 and WAC 480-73-190 (affiliate transactions). Under that authority, Olympic must show that the transaction is in the public interest and must submit a verified copy of the underlying agreement prior to its effective date.

The terms of the Lease and the Amended TSA are both reasonable and in the public interest. The Lease is made expressly contingent on the Commission’s (and the Federal Energy Regulatory Commission’s) approval of the Amended TSA. The Amended TSA is the result of

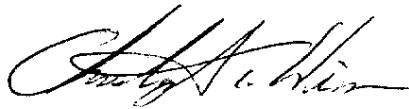
extensive negotiations between and among Olympic, Tesoro, and CP that have taken place over approximately the last nine months. The basic mechanism of the Amended TSA parallels that of the original TSA, which the Commission approved in 2003. The best argument in favor of approval of the Amended TSA is that the basic rate setting methodology of the TSA has worked well, and the parties' experience with it has enabled them to improve upon it in certain respects in the Amended TSA. The Amended TSA, like its predecessor, provides a rational methodology for the continued economic regulation of Olympic based upon agreed criteria that enable Olympic's shippers to understand and to predict the transportation costs associated with transporting their refined products to the marketplace. As in the case of the original TSA, the evolved methodology proposed in the Amended TSA is fundamentally the depreciated original cost method previously approved by this Commission.

During the course of their negotiations over the Amended TSA, Olympic, Tesoro, and CP recognized that the Lease was an important factor in arriving at a mutually acceptable amendment. The Lease is a direct outgrowth of Olympic's agreeing to remove Bayview from the rate base as part of the Amended TSA. Approximately 85% of the Bayview facilities are removed under the Amended TSA, and only that portion of Bayview will be subject to the Lease. It is anticipated that the Lease will provide the revenue necessary for Olympic to be able to accommodate the tariff revenue reduction inherent in Bayview's removal from the rate base. As stated in Section 2.2(h) of the Amended TSA (submitted with the Petition for TSA Amendment Approval), Tesoro and CP agreed to "support all required regulatory approvals of the Lease and amended tariffs required to implement the Lease."

Olympic intends to comply fully with its obligation to submit a verified copy of the Lease. However, because the Lease in its executed form contains trade secret and proprietary information of BPWCP, Olympic has filed a Motion for Protective Order (under Docket No. TO-031973), requesting permission to submit a complete, unredacted copy of the Lease under seal, to prevent unwarranted disclosure of BPWCP's confidential information. Olympic has submitted a redacted version of the Lease in connection with its Petition for Lease Approval. Olympic will submit an unredacted version of the Lease upon issuance of an appropriate order in connection with Olympic's pending motion for a protective order.

Very truly yours,

DANIELSON HARRIGAN LEYH & TOLLEFSON LLP



Christopher T. Wion