Exhibit No. ___ (RGC-4T)
Docket No: TO-011472
Witness: Robert G. Colbo

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

	)	
Washington Utilities and	)	
Transportation Commission,	)	
	)	
Complainant,	)	**DOCKET NO. TO-011472**
v.	)	
	)	
Olympic Pipe Line Company, Inc.,	)	
	)	
Respondent		

. . . .

TESTIMONY OF

ROBERT COLBO

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

May 24, 2002

Q. WOULD YOU STATE YOUR NAME AND BUSINESS ADDRESS PLEASE?

A My name is Robert Colbo. My business address is 1300 South Evergreen Park Drive S.W., Olympia, Washington 98504-7250.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Washington Utilities and Transportation Commission (WUTC or Commission) as a Transportation Program Consultant.

I. QUALIFICATIONS

Q. HAVE YOU REDUCED A SUMMARY OF YOUR QUALIFICATIONS AND EXPERIENCE INTO EXHIBIT FORMAT?

A. Yes. Exhibit No. ___ (RGC-5), entitled "Statement of Qualifications and Experience" is that exhibit.

II. SUMMARY OF STAFF'S CASE

Q. PLEASE SUMMARIZE STAFF'S COST OF SERVICE ANALYSIS OF OLYMPIC PIPE LINE COMPANY.

A. Olympic has a revenue requirement of $14,641,838 for Washington Intrastate operations. Olympic has a revenue deficiency for Washington Intrastate operations of $78,614. This results in an increase in intrastate pipeline transportation rates of 0.54%.

Staff witness Mr. Twitchell and I present the Staff's accounting analysis. The test year used by Commission Staff is the year ended December 31, 2001, the most recent period for which data was reasonably available. Staff's analysis presents Olympic's actual results of operations for that period, fully restated and pro formed. Staff's analysis uses the historical cost less depreciation rate base traditionally used by the Commission. Staff recommends the Commission reject the FERC methodology as presented by Olympic.

Staff's cost of service analysis uses an end of period rate base. Staff also includes Construction Work in Progress (CWIP) in rate base at year-end 2001 balances. The Commission has accepted these sorts of adjustments in extraordinary cases.

Staff's case is based on a capital structure of 80% debt and 20% equity, as recommended by Mr. Wilson, a consultant testifying for Staff in this case. Mr. Wilson recommends a rate of return of 7.40%.

Also testifying in support of Staff's rate case presentation are Mr. Kermode and Mr. Elgin. Mr. Kermode addresses the Olympic's accounting practices in connection with Generally Accepted Accounting Principles (GAAP). Mr. Elgin addresses certain issues raised by the Commission in Paragraph 10 of its Third Supplemental Order, and evidence offered by Olympic witness Ms. Omohundro attempting to distinguish Olympic from other public service companies.

III. SCOPE OF STAFF ACCOUNTING TESTIMONY

Q. WHAT IS THE SCOPE OF STAFF'S ACCOUNTING TESTIMONY IN THIS PROCEEDING?

A. I provide the detail of the Staff's total company Restating Actual and Pro Forma adjustments to Olympic Pipe Line Company's, Inc., (Olympic's) results of operations for test year 2001 as they appear in Staff Exhibit Nos. ____ (MLT- 4) and ____ (RGC-6-C). I will also address the appropriate throughput level upon which to set rates, the current status of the Company's attempts to get audited financial statements from its CPA firm and related accounting issues, and the appropriate conversion factor to use in the calculation of Olympic's revenue requirement.

Mr. Twitchell will then apply certain factors and ratios in his conversion of operating results into the Federal Energy Regulatory Commission (FERC) format, and his subsequent development of Washington intrastate results which appear in Exhibit No. ____ (MLT-7) as requested by the Commission of its Third Supplemental Order in Paragraph 27 on Page 7.

Mr. Twitchell will also testify regarding the appropriate ratemaking methodology and rate base the Commission should use to set rates, the traditional WUTC return on depreciated original cost rate base or a FERC return on trended original cost rate base. He is also responsible for the pro forma debt adjustment, Federal Income Taxes, Allowance For Funds Used During Construction (AFUDC), and related issues.

IV. NATURE OF OLYMPIC PIPE LINE; PROCEDURAL HISTORY, OVERVIEW OF OLYMPIC'S DIRECT CASE

Q. BRIEFLY DESCRIBE THE OLYMPIC PIPELINE SYSTEM.

A. Olympic owns approximately 400 miles of trunk and lateral pipeline running from northern refineries in Whatcom and Skagit Counties down the east side of Puget Sound, and on to final destination points near Portland, Oregon, with various intermediate distribution facilities along the way.

Q. BRIEFLY DESCRIBE THE COMPANY'S RECENT HISTORY.

A. The Whatcom Creek explosion occurred in June 1999. BP Pipe Lines began operating Olympic Pipe Line Company in July 2000. BP acquired majority ownership in September 2000. The segment of the pipeline between Ferndale and Allen restarted in February 2001. The portion between Allen and Renton restarted in June 2001. All operations subsequent to the Whatcom Creek explosion have been limited to 80% of normal operating pressure.

The Company changed accounting systems from what it calls "ISP" to "SAP" in May 2001. In May 2002, Olympic sold its facilities located at Sea-Tac Airport.

Q. PLEASE PROVIDE A BRIEF REVIEW OF THE PROCEDURAL HISTORY OF THIS DOCKET.

A. On October 31, 2001, Olympic filed WUTC Tariff No. 23, and the matter was assigned Docket No. TO-011472. This tariff filing would cancel and replace

WUTC Tariff No. 21, and increase rates 62 percent for Olympic's intrastate Washington transportation of refined oil products.

Olympic also filed tariffs before FERC seeking the same 62 percent increases in rates for interstate service. As a matter of policy, FERC allowed the proposed 62 percent increases for interstate service to go into effect, subject to refund, while separate hearings proceed in that jurisdiction.

Olympic also sought interim relief, subject to refund, before this Commission pending the final determination of its general rate increase request. The Commission held hearings on the Olympic's request for interim relief in January 2002. On January 31, 2002, the Commission issued its Third Supplemental Order granting a 24.3 percent interim rate increase, subject to refund, effective February 2, 2002.

Q. FROM AN ACCOUNTING PERSPECTIVE, PLEASE PROVIDE A BRIEF OVERVIEW OF THE DIRECT CASE OLYMPIC FILED TO SUPPORT ITS PROPOSED 62 PERCENT RATE INCREASE.

A. The Company's proposed total revenue requirement of $60,989,000 is summarized in Schedule 1 of Exhibit No. ___ (CAH-4). This is a 62 percent increase over revenues Olympic says are generated from existing rates. Company exhibits provide no summary pro forma income statement. The Company's basic accounting support for its filing is contained in Exhibit No. ___ (CAH-4), which is sponsored by Company witness Ms. Hammer. But most of the schedules in that exhibit were prepared by Company witness Mr. Collins. The base year used by the Company is 12 months ended September 2001.

In Company parlance, "base year" means the actual recorded financial operating results for the 12 months ended September 30, 2001. The Company "base year" is comparable to the Staff "test year," which I explain further below. Company adjustments are then developed by account on supporting schedules, summarized on Schedule 21 of Exhibit No. ___ (CAH-4), and added to "base year" amounts to arrive at projected "test year" values. Company adjustments are not individually stated. Company "test year" values are comparable to Staff "pro forma year" results which I explain further below. The Company has not provided a complete pro forma income statement in one concise schedule showing revenues, expenses, taxes, rate base and revenue requirement.

In its direct case, the Company applied its interpretation of the FERC methodology. This includes allowances for returns on rate base which includes net starting rate base (SRB), net deferred returns, interest, income taxes and other items. Mr. Twitchell testifies to these issues for Commission Staff. The resulting revenue requirement the Company proposes is also a function of the Company's use of updated costs for budget year 2002, contained in Exhibit No. ___ (CAH-4), Schedule 21.

V. AUDIT PROBLEMS

Q. WHAT DIFFICULTIES DID YOU ENCOUNTER IN THE PROCESS OF GATHERING THE NECESSARY INFORMATION TO VERIFY THE

INFORMATION SUPPLIED BY THE COMPANY IN EXHIBIT NO. ___, (CAH-4)?

A. When BP Pipe Lines took over from Equilon as operator of Olympic's pipeline in July 2000, BP Pipe Lines brought in all new personnel. Olympic represents that Equilon employees took all of the pipeline's accounting programs, software, and equipment with them when they left. There was no accounting system in place to track day-to-day financial operations for the new operator. Most accounting reports and records prior July 2000 are not available.

BP Pipelines had to set up a new accounting system from scratch using what it calls "ISP" software. All this was happening at the same time the Company was attempting to get the line back into operation and recover from the Whatcom Creek explosion. In May 2001, BP changed the accounting system at Olympic from ISP to what Olympic calls "SAP" - near the middle of what later would be both the Company's and Staff's test years for this docket. SAP is the accounting system used by all other pipelines operated by BP. Due to the change in accounting software, all account titles for Olympic's accounts changed in May 2001. The result is that obtaining reliable backup material for entries prior to May 2001, is difficult if not impossible.

Q. HAVE THE BASE YEAR OPERATING RESULTS FOR EITHER THE 12 MONTHS ENDED SEPTEMBER 30, 2001 (USED BY THE COMPANY), OR CALENDAR YEAR 2001 (USED BY THE STAFF) BEEN AUDITED BY ERNST & YOUNG, THE COMPANY'S CPA FIRM?

A. No. The Company originally promised to have unqualified audited financial statements before now. The latest Company estimate of when audited results may become available is Winter 2002 or Spring 2003.

Q. DID YOU REVIEW THE COMPANY'S ACCOUNTING RECORDS?

A. Yes. Mr. Twitchell and I traveled to Houston, Texas, in February 2002, and visited the Company's accounting offices.

Q. WHAT PROBLEMS DID YOU OBSERVE WITH THE COMPANY'S BALANCE SHEET ACCOUNTS?

A. For the first 4 months of 2001, Plant in Service was overstated, and Construction in Progress (CWIP) was understated, by $25.4 million each. In March 2001, there was a correction for a $2.6 million balance incorrectly brought forward from Equilon that understated Plant in Service and overstated CWIP by the same amount. Finally, in December 2001, the original entry recording new plant for that month incorrectly increased Plant in Service and decreased CWIP by the current $21.5 million CWIP balance in the Cross Cascade project account.

Q. WHAT WERE SOME OF THE PROBLEMS YOU OBSERVED WITH THE COMPANY'S INCOME STATEMENT ACCOUNTS?

A. It appears that since May 2001, the Company's entries under the new SAP accounting system, in most accounts and for most months, include entries from invoices received from up to 4 and 5 months prior to when they were paid and first entered into the system. These types of entries are more akin to cash-based, rather than accrual-based accounting.

The Company made a major accrual of expenses in December, 2001, but it focused on Whatcom Creek casualty loss items rather than “regular” operating expense items. The Company’s SAP accounting system internally generates adjustments that are summarized and later posted/reclassified into different accounts than where the original entries were recorded in the first place. These computer generated adjusting entries have no individual vendor names or original amounts attached to them to allow comparison or provide a trail back to the original entries.

The Company records fixed asset entries separately within the SAP accounting system. It includes information on what the individual projects are, how much they cost, when they were placed into service, and service life (depreciation rate). However, there is no way to track system generated depreciation expense entries back to their source.

These are some of the problems that were encountered in their testimony. Mr. Twitchell and Mr. Kermode address other problems in their testimony.

Q. IN VIEW OF THE PROBLEMS STAFF ENCOUNTERED, IN YOUR OPINION, CAN THE COMMISSION RELY UPON THE COMPANY’S ACCOUNTING RECORDS AND OPERATING RESULTS WITHIN EXHIBIT NO. ___ (CAH-4) TO SET RATES THAT ARE FAIR, JUST, REASONABLE, AND SUFFICIENT?

A. No.

Q. WHAT DOES STAFF PROPOSE?

A. Staff proposes to use calendar year 2001 as the test period because it includes more months of operations since the entire pipeline came back on line. Staff believes that will provide the best information available for the Commission to make an informed decision. Using a calendar year 2001 test year provides:

a. More current data

b. Captures year end accounting adjustments affecting the full previous 12 months

c. Includes three additional months of operations at the maximum 80% pressure allowed by the Federal Office of Pipeline Safety.

Q. DOES THE APPROACH YOU RECOMMEND CORRECT THE PROBLEMS STAFF ENCOUNTERED?

A. No. Even though the problems with the accounting records remain, Staff believes that using calendar year 2001 test year is a significant improvement over using the test year ending September, 30, 2001.

Q. WHY DOESN'T STAFF JUST RECOMMEND THE COMMISSION DENY THE REQUEST AND DISMISS THE CASE?

A. Staff tried its best to present the best information possible to the Commission. Although there are significant problems contained in the data underlying Staff's case, the overall results and Staff's recommendation are reasonable.

Q. HOW WAS THE STAFF'S APPROACH IN THIS CASE DIFFERENT FROM THE COMPANY'S APPROACH?

A. Staff utilized a test year for the 12 months ended December 31, 2001, in order to capture 3 additional months of actual data when the entire length of the line was in operation, although at reduced operating pressure. Staff presents restated and pro forma operating results and return on net investment in the traditional utility ratemaking methodology used by this Commission.

Olympic's case uses a base year of the twelve months ending September 30, 2001. Olympic applies its interpretation of the FERC methodology. Olympic does not provide a complete restated and proformed results of operations. While Staff's case restates and proforms actual operating results to reflect known and measurable, normalizing adjustments, in many instances the Company relies on 2002 budget numbers which are neither verifiable, nor known nor measurable. Nonetheless, for certain accounts I used budget numbers when no other reasonable alternative was available.

VI. OLYMPIC'S REVENUE REQUIREMENT

Q. WHAT IS OLYMPIC'S REVENUE REQUIREMENT?

A. $14,641,838 from Washington Intrastate operations, and $21,878,118 from Interstate operations. The resulting Washington intra-state revenue deficiency of $78,644 (0.54%) is the percentage increase I would recommend for all of Olympic's existing permanent intrastate rates.

Q. HAVE YOU PREPARED AN EXHIBIT THAT SUMMARIZES HOW STAFF DEVELOPED THAT REVENUE REQUIREMENT?

A. Yes. My Exhibit No. ___(RGC-6-C) entitled "Olympic Pipe Line Company Actual and Pro forma Results of Operations Total Company Twelve Months Ending December 31, 2001," summarizes Staff's accounting adjustments in this case. Together with Exhibit Nos. ___ (MLT- 4), ___ (MLT- 5), ___ (MLT-6), and ___ (MLT-7), it forms the basis of the Staff's accounting recommendations in this case.

Q. PLEASE EXPLAIN EXHIBIT NO. ___ (RGC-6-C).

A. Exhibit No.____(RGC-6-C) is a total company pro forma income statement for Olympic for the 12 months ended December 31, 2001, with supporting schedules and documents. The first page of this exhibit comes from Mr. Twitchell's Exhibit No. ___ (MLT -4) to which I added two columns providing reference numbers for the summary restating actual and pro forma adjustments on the first page

Column (A) shows account descriptions. Accounts are grouped in FERC format, identical to the Company's presentation in Schedule 21 of Exhibit No. ___ (CAH-4).

Column (B) shows actual operating results, rate base, and taxes as reflected on the Company's books of account for year 2001.

Column (C) contains the summary Staff Restating Actual Adjustments that recast the actual operating results of the Company to reflect a more representative "test year" for rate-making purposes. Details for the Staff Restating Actual Adjustments come from Page 3 of Exhibit No. ___ (RGC-6-C).

Column (D) on Page 1 is the sum of Column (B) and Column (C), and shows the Company's adjusted results after Restating Actual Adjustments.

Column (E) contains a summary of the Pro Forma Adjustments, and Column (F) is the sum of Column (D) and Column (E). Details for the Staff Pro Forma Adjustments come from Page 4 of Exhibit No. ___ (RGC-6-C).

Column (F) shows total company results as restated and proformed at present permanent rate levels (i.e., before the impact of any rate proposals or interim rates).

Q. WHAT ARE THE RESTATING ACTUAL ADJUSTMENTS IN COLUMN (C)?

A**.** Restating Actual adjustments adjust for accounting errors and mispostings, and give recognition to those areas where the Company's normal accounting procedures differ from accepted regulatory practice.

Q. WHAT ARE THE PRO FORMA ADJUSTMENTS IN COLUMN (E)?

A. Pro forma adjustments give effect to changes in revenue and expense levels that have or will soon occur as if they had been in effect for the entire test year. Pro forma adjustments reflect known and measurable changes to revenues and expenses to the extent they are not offset by other factors.

Q. WHY DID STAFF USE A 12-MONTH TEST YEAR?

A. Normally, a 12-month test year recognizes seasonal variations and presents a more accurate portrayal of "normal" operations. One of the major difficulties in this case is that Olympic did not even come close to "normal" operations until well after the Whatcom Creek explosion. Finally, in June 2001, the Allen to Renton segment reopened. Even then, the pipeline was (and still is) operating at 80% of normal pressure. As I mentioned earlier, this was one of the reasons why Staff wanted to update the test year to calendar year 2001.

Q. PLEASE EXPLAIN THE ADJUSTMENT NUMBERS THAT APPEAR BEFORE THE RESTATING ACTUAL AND PRO FORMA ADJUSTMENTS IN COLUMNS (C) AND (E) ON PAGE 1 OF EXHIBIT NO. ___ (RGC-6-C).

A. Staff adjustments are grouped by the same account and given the same numerical designator, matching the adjustments the Company made in Exhibit No.___ (CAH-4). This will assist the Commission in comparing like adjustments. The

"S" prefix signifies it is a Staff adjustment, The "E" signifies it relates to an expense account, the "R" signifies it relates to a revenue account. The "RB" signifies it relates to rate base, and a "T" signifies it relates to income taxes. The following chart summarizes the above explanations:

S	Staff Adjustment
E	Expense Account
R	Revenue Account
RB	Rate Base Item
T	Income Tax Item

Q. HAVE YOU PREPARED A SCHEDULE THAT WILL ASSIST THE COMMISSION IN COMPARING THE STAFF CASE AND THE COMPANY CASE?

A. Yes. Page 5 of Exhibit No. ___(RGC-6-C) provides a framework for that comparison, but a direct one-for-one comparison is difficult since the parties start from different base periods. The test year for the Company is for the twelve months ended September 30, 2001, and the test year is calendar year 2001 for the Staff case. Also, the adjustments I propose in my testimony are converted into FERC format by Mr. Twitchell before they re-appear on page 1 of Exhibit No. ___(RGC-6-C). Column (B) contains account descriptions. Columns (C) and (D) provide adjustment numbers, and indicate whether they apply to base year restatements (restating actual adjustments) or test year (pro forma) adjustments.

Column (E) is the Company case, and Column (F) is the Staff case. Differences are shown in Column (G). Different beginning operating expenses are shown on Line 1. The Company has made no comparable capital Restating Actual Adjustments for any of the accounts shown at Lines 19-27 on page 5 for Restating Actual Adjustments SE-18 through SE-25. Summary adjustment numbers and amounts by account are shown on Lines 2-26, and adjusted present level expense totals are shown on Line 28. Additional detail is shown for Revenues on Lines 29-32, Other Expenses & Taxes on Lines 33-37, and Rate Base on Lines 38-46.

Q. PLEASE EXPLAIN PAGES 2, 3, AND 4 OF EXHIBIT NO. ___ (RGC-6-C).

A. Pages 3 and 4 are the individual total company Restating Actual and Pro Forma Adjustments I made to the Company's 2001 actual results of operations. The individual adjustments are then summarized by account and brought forward to Page 2. They are presented here in the same format as Olympic's financial statements. Mr. Twitchell then takes the material from these sheets, converts them to the FERC format, and includes them by individual adjustment and in account summary in Exhibit Nos. ___ (MLT-4), ___ (MLT-5), and ___ (MLT-6).

Thus, both individually and in total, the amounts shown on Pages 2, 3 ,and 4 of my Exhibit No. ___ (RGC-6-C) for "Total Revenues" on Line 5, "Total Operating Expenses w/o Interest" on Line 26, and "Net Rate Base" on Line 28 tie to their corresponding amounts on Lines 4, 24, and 38 of Page 1 of my Exhibit No. ___(RGC-6-C) and Page 1 of Exhibit No. ___(MLT-4).

Q. PLEASE EXPLAIN COLBO RESTATING ACTUAL ADJUSTMENT "RA-1, RECLASSIFICATIONS" ON PAGE 3 OF EXHIBIT NO. ___ (RGC-6-C).

A. Adjustment Colbo RA-1 "Reclassifications" reclassifies amounts that were misposted on the Company's books of account. The Company incorrectly included Drag Reducing Agent (DRA) expenses of $74,437 in the Supplies and Materials account. Also, the year-end $1,113,421 entry that recorded additional Casualty Loss and other items was posted into one of the sub-accounts that comprise the Miscellaneous Expense category, not the Casualty Loss account. These reclassifications have implications in Mr. Twitchell's conversion of the accounts into FERC format. The $5,412 adjustment moves the Issuance Expense below the line. Issuance Expense involves amortized loan costs associated with one of the Company's debt instruments. As such, it is a financing expense not related to operations.

Q. WHAT IS THE REASON FOR THE "COLBO" DESIGNATION ON THIS AND OTHER STAFF ADJUSTMENTS?

A. I wanted to avoid confusion about the adjustments that I prepared on a total company basis in the Company's financial statement format on Pages 2 to 4 of my Exhibit No. ___ (RGC-6-C), and the same adjustment numbers and descriptions that were then converted by Mr. Twitchell into FERC format (and later separated into Washington Intrastate results), that are shown on Page 1 of Exhibit No. ___ (RGC-6-C), and in Exhibits ___ (MLT-4), ___ (MLT-5), ___ (MLT-6), and ___ (MLT-7).

Q. PLEASE EXPLAIN COLBO RESTATING ACTUAL ADJUSTMENT "RA-2, REMOVE NON-OP RATE BASE."

A. Adjustment Colbo RA-2 "Remove Non-Op Rate Base" removes $551,000 from rate base. This amount comes from the Company's 2000 and 2001 FERC Form-6 Annual Reports where it is classified as "Non-Operating" plant. An excerpt of Page 111 of Olympic's 2001 FERC Form-6 Annual Report is shown on Page 6 of Exhibit No. ___ (RGC-6-C). No such amount has been removed from the Company's rate base as developed in Exhibit No. ___ (CAH-4).

Q. PLEASE EXPLAIN COLBO RESTATING ACTUAL ADJUSTMENT "RA-3, REMOVE CASUALTY LOSS."

A. Adjustment Colbo RA-3 "Remove Casualty Loss" removes $17,623,909 in net direct casualty losses related to the Whatcom Creek explosion that the Company recorded during year 2001. The Company is not seeking to recover these amounts through rates in this proceeding.

Q. PLEASE EXPLAIN COLBO RESTATING ACTUAL ADJUSTMENT "RA-4, RECLASSIFY CAPITALIZED CONSTRUCTION PAYROLL."

A. Adjustment Colbo RA-4 "Reclassify Capitalized Construction Payroll" reclassifies a December 2001 adjusting accounting entry Olympic made that capitalized payroll expenses related to the Company's 2001 construction program. Plant in Service accounts were increased and Miscellaneous Expenses were decreased by $444,000 each. Since this item is payroll related, Colbo Adjustment RA-4 transfers the $444,000 credit into the Payroll account from the Miscellaneous Account where it was originally recorded.

This has implications in Mr. Twitchell's conversion of the accounts into FERC format and also his separation of operating results into the Washington Intrastate segment.

The $10,878 depreciation entry records depreciation expense for the new $444,000 asset for the first year. Additional detail for this adjustment is shown on Page 7 of Exhibit No. ___ (RGC-6-C).

Q. PLEASE EXPLAIN COLBO RESTATING ACTUAL ADJUSTMENT "RA-5, CORRECT DECEMBER DEPRECIATION & RATEBASE."

A. Adjustment Colbo RA-5 "Correct December Depreciation & Ratebase" corrects an erroneous December 2001, depreciation expense entry the Company made. I mentioned earlier in my testimony that there was an overstatement of Plant in Service for December 2001. This adjustment removes the excess depreciation expense resulting from this erroneous accounting entry. The $7.7 million adjustment to rate base for the year was provided by Mr. Twitchell. Additional detail relating to Colbo Adjustment RA-5 is shown at Page 8 of Exhibit No. ___ (RGC-6-C).

Q. PLEASE EXPLAIN COLBO RESTATING ACTUAL ADJUSTMENT "RA-6, REMOVE EMPLOYEE RELOCATION EXPENSE."

A. Adjustment Colbo RA-6 “Remove Employee Relocation Expense” removes employee relocation costs from operating expenses. These expenses are non-recurring transition costs related to change in ownership and operator of the pipeline. These expenses are not normal, ongoing expenses related to providing regular service. They are more properly borne by shareholders, not ratepayers.

Q. PLEASE EXPLAIN COLBO RESTATING ACTUAL ADJUSTMENT “RA-7, NORMALIZED OTM EXPENSES.”

A. Adjustment Colbo RA-7 “Normalized OTM Expenses” normalizes One Time Maintenance (OTM) expenses, as recorded in “Outside Services” on the Company’s ledgers, to a more reasonable level for rate setting. Details supporting this adjustment comes from Page 9 of Exhibit ___ (RGC-6-C). Page 9 in turn relies on a Staff analysis of Schedule 307, which was provided by the Company in response to Staff Data Request No. 307. I have included Schedule 307 on Pages 10 and 11 of this exhibit. It shows project-by-project detail of Olympic’s Major Maintenance/OTM proposed budget for 2002. Certain other Company-supplied information relevant to this adjustment is included on Pages 12 to 17 of Exhibit No. ___ (RGC-6-C).

I added the three columns on the right of Schedule 307 on Pages 10 and 11 of Exhibit No. ___ (RGC-6-C) to classify the amounts associated with each project into either the “Capitalize,” “Amortize,” or “Expense” category. The “Capitalize” amounts are from projects that are permanent improvements to the pipeline, or improvements that have benefits extending well into the future. The

"Amortize" amounts are expenditures for projects that have benefits extending into the short-term future. The final "Expense" column is for those items that are properly expensed.

Page 2 of Schedule 307 (Page 11 of Exhibit No. ___ (RGC-6-C) shows total amounts from both pages and also shows a percentage spread for each of the categories in each column. Based on Staff's analysis of Schedule 307, 40% of the 2002 budgeted amount for One Time Maintenance should more properly be capitalized and depreciated instead of expensed, 58% is more properly amortized over a 5 year period rather than expensed in one year, and the remaining 2% are items properly expensed.

The percentages from the Schedule 307 study are then carried forward and applied against Olympic's actual One Time Maintenance expenses for 2001 on Page 9 of Exhibit No ___ (RGC-6-C). The capitalized $1,318,201 portion on Page 9, Lines 11 and 16 is removed from actual 2001 Outside Service Expense and is offset in part by the $32,428 increase in Depreciation Expense on Lines 11 and 21. This amount is developed using Olympics 2.45% overall depreciation rate. The amortizable $1,911,391 portion on Lines 12 and 17 is removed from actual 2001 Outside Service Expense and is offset in part by the 20%, $382,278 increased amortization amount on Lines 12 and 18. The remaining $65,910 amount on Line 13 was left in Outside Service as properly expensed. The year-end rate base impact is shown at the bottom of the page on Line 27.

Q. HOW DOES YOUR ADJUSTED TOTAL FOR OUTSIDE SERVICES COMPARE WITH THE COMPANY'S PORTRAYAL IN SCHEDULES 21 AND SCHEDULE 21.5 OF EXHIBIT NO.___ (CAH-4)?

A. My adjusted total is substantially lower than the Company's. Lines 22 to 33 on Page 12 of Exhibit No. ___ (RGC-6-C) explains many of the differences. It provides a concise recap of the Company's development of Outside Services in Schedules 21 and 21.5 of Exhibit No. ___ (CAH-4).

Q. WHAT ARE THOSE DIFFERENCES?

A. To begin with, I have shown BP Pipelines Management/Overhead fees as a separate account on Line 11 on Page 2 of Exhibit No. ___ (RGC-6-C). The Company includes them in Outside Services as I show on Line 27 on Page 12 of Exhibit No. ___ (RGC-6-C). The source of BP Pipelines management fees charged to Olympic for 2000 through 2004 have been penciled in on Page 13 of Exhibit No. ___ (RGC-6-C). These amounts are actually paid by Olympic to BP Pipelines.

As shown on Line 23 at Page 12 of Exhibit No. ___ (RGC-6-C), the Company has also included $455,000 as the 20%, 2002 amortization portion of transition costs incurred when BP Pipelines took over operations of Olympic from Equilon. These transition costs are one-time costs that have no effect on service to customers, and therefore those amounts are more properly charged to stockholders rather than ratepayers. I therefore removed these amounts.

As I present on Line 24 at Page 12 of Exhibit No. ___ (RGC-6-C), the Company also included $1,194,000 as the 2001 (not 2002) amortizable portion of the December 2000, estimated environmental accrual of $6,452,000. Details of the Accounts Payable entry are shown on Pages 14 and 15 of Exhibit No. ___ (RGC-6-C).

Page 14 of Exhibit No. ___ (RGC-6) show the portions of the total amount that relate to the Whatcom Creek explosion. Those amounts should be removed from consideration in this proceeding. Costs on the first two lines on Page 14 relate to Olympic's Sea-Tac facilities that have now been sold to the Port of Seattle.

Olympic has been unable to confirm how much of these estimated amounts have ever actually been spent, in Bellingham, at Sea-Tac, or anywhere else. (See Exhibit No. ___ (RGC-8), Deposition of Ms. Hammer at Tr. 201).

As shown on Line 26 at Page 12 of Exhibit No. ___ (RGC-6-C), the Company has included $1,004,000 for Legal and Other Professional Services, primarily related to rate case costs associated with this docket. Details behind the $1,004,499 total are shown at Pages 16 and 17 of Exhibit No. ___ (RGC-6-C). These too are Company estimated amounts, with no detail as to vendors, services provided, dates of service, or actual amounts spent. (See Exhibit No. ___ (RGC-8), Deposition of Ms. Hammer at Tr. 68). I therefore excluded them from any presentation of Outside Services expense.

Q. RETURNING TO EXHIBIT NO. ___ (RGC-6-C), PAGE 3, PLEASE CONTINUE WITH YOUR EXPLANATION OF STAFF'S RESTATING ADJUSMENTS. IS TWITCHELL RESTATING ACTUAL ADJUSTMENT "RA-8, AFUDC" THE RESPONSIBILITY OF STAFF WITNESS MR. TWITCHELL?

A. Yes.

Q. PLEASE EXPLAIN COLBO RESTATING ACTUAL ADJUSTMENT "RA-9, AMORTIZED EMPLOYEE LT DISABILITY BUYOUTS."

A. During the test year, Olympic expensed $185,766 to buy out the long-term disability benefits accruing to two former employees. Adjustment Colbo RA-9 "Amortized Employee LT Disability Buyouts" normalizes and amortizes this amount over three years, rather than including the entire amount in current operations. Additional detail is provided at Page 18 of Exhibit No. ___ (RGC-6-C).

Q. PLEASE EXPLAIN COLBO RESTATING ACTUAL ADJUSTMENT "RA-10, REMOVE D. CUMMINGS W. CRK PAYROLL."

A. Adjustment Colbo RA-10 "Remove D. Cummings W. Crk Payroll" removes the Whatcom Creek portion of the total 2001 payroll amount for Dan Cummings, who is Olympic's Government and Public Affairs Director. For the year 2001, the Company estimates 65% of Mr. Cummings time was spent on Whatcom Creek-related activities. These Whatcom Creek-related costs should be eliminated from the Company's revenue requirement determination consistent with the treatment of other Whatcom Creek-related costs. Additional detail is provided at Page 19 of Exhibit No. ___, (RGC-6-C), which draws from information contained in the Company's response to Staff Data Request No. 401.

Q. PLEASE EXPLAIN COLBO RESTATING ACTUAL ADJUSTMENT "RA-11, REMOVE ADVERTISING, CHARITY, AND LOBBYING."

A. Colbo Adjustment RA-11 "Remove Advertising, Charity, and Lobbying" removes advertising, lobbying, and charitable contributions recorded by the Company in accordance with the additional information shown at Page 20 of Exhibit No. ___ (RGC-6-C). It is based on information contained in the Company's response to Staff Data Request Nos. 331 and 332. The Commission is required to remove charitable contributions from cost of service determinations pursuant to 1978 decision by the state Supreme Court in *Jewell v. WUTC*, 90 Wn.2d 775.

Image building activities such as advertising, and lobbying expenses, are not necessary operating expenses properly borne by ratepayers. If these types of expenses are undertaken, they are the responsibility of stockholders, not ratepayers.

Q. DOES THIS COMPLETE YOUR EXPLANATION OF STAFF'S RESTATING ACTUAL ADJUSTMENTS?

A. Yes.

Q. TURNING NOW TO YOUR PRO FORMA ADJUSTMENTS ON PAGE 4 OF EXHIBIT NO. ___ (RGC-6-C), WHAT IS THE PURPOSE OF COLBO PRO FORMA ADJUSTMENT "PF-1, REVENUE AT 108,323,721 BARRELS THROUGHPUT" AND "COLBO PRO FORMA ADJUSTMENT PF-3, REMOVE INTERIM AND SEA-TAC RATES?"

A. Colbo Pro Forma Adjustments PF-1 and PF-3 establish the Staff's use of 108,323,721 throughput barrels and the resulting present level of revenues and expenses before the issue of future rate levels in this case can be properly evaluated.

Q. IS THAT THROUGHPUT RELATED TO THE PIPELINE OPERATING AT 100 PERCENT PRESSURE OR 80 PERCENT PRESSURE?

A. Eighty percent pressure.

Q. WHAT EVIDENCE IS THERE OF OLYMPIC'S HISTORICAL THROUGHPUT CAPABILITY?

A. Annual throughput in 1998 was 116,265,991 barrels, as shown on Page 22 of Exhibit ___ (RGC-6-C). This page is a reprint of Company Schedule 22 from Exhibit No. ___ (CAH-4). 1998 was before Bayview Terminal was put into service, and it was the last complete calendar year of operations before the Whatcom Creek explosion.

At the time Bayview Terminal was placed into service, Olympic told the Commission that Bayview would increase throughput by 35,000 to 40,000 barrels per day. This translates to 12,775,000 to 14,600,000 barrels per year of additional throughput. This would increase total annual throughput, based on 1998 experience, to between 129,040,991 and 130,865,991 barrels. See Page 24 of Exhibit No. ___ (RGC-6-C). Nonetheless, when Olympic filed rates to reflect the addition of Bayview in Docket No. TO-981613, it used an annual throughput of only 121,349,000 barrels per year. See Page 26 of Exhibit No. ___ (RGC-6-C).

Q. WHEN DID THE WHATCOM EXPLOSION OCCUR?

A. In June 1999.

Q. WHEN DID OLYMPIC RESTORE SERVICE TO THE REFINERIES AT THE NORTH END OF OLYMPIC'S SYSTEM?

A. The Ferndale to Allen section reopened in February 2001; the Allen to Renton segment reopened in June 2001.

Q. ARE THERE CURRENTLY ANY OPERATING RESTRICTIONS ON OLYMPIC'S PIPELINE?

A. Yes. The Federal Office of Pipeline Safety (OPS) has established an operating pressure for Olympic of no more than 80% of the otherwise normal maximum allowable pressure. Olympic does not expect to reach 100% pressure until the end of 2003 at the earliest.

Q. WHAT PROBLEMS DOES THIS POSE FOR DETERMINING AN APPROPRIATE THROUGHPUT LEVEL FOR PURPOSES OF SETTING RATES IN THIS CASE?

A. There are 3 primary problems:

1) Throughput was below normal for all months of both the Company and Staff test years,

2) Below normal throughput will continue until the OPS lifts the pressure restrictions, and

3) An issue is presented as to whether rates should be set using throughput based on normal operations at 100% pressure, or on throughput based on operations at 80% pressure.

Q. HOW DOES STAFF RECOMMEND THE COMMISSION RESOLVE THESE PROBLEMS?

A. Staff proposes that an estimate of throughput at 80% pressure be used to set rates in this case, but that the tariffs implementing those rates expire on December 31, 2003. Absent another rate filing, rates would return to the current, permanent, rates in Tariff No. 21 on January 1, 2004. If rates are set at throughput levels reflecting 100% pressure, and the pipeline is not restored to 100% pressure until the end of 2003, the Company would probably under-earn. Conversely, if rates are set using throughput levels at 80% pressure, at the time Olympic resumes operations at 100% pressure, the Company would probably over-earn. Staff's recommendation to use throughput set at 80% pressure, but with a time-limited tariff, balances these two concerns.

Q. WHY IS THROUGHPUT A CRITICAL ISSUE IN THIS CASE?

A. Very simply, the revenue requirement divided by the throughput gives the rate. As throughput increases, the rate decreases. The Company recommends the Commission set rates using 105,897,000 barrels, Tesoro recommends 121,349,000 barrels, Tosco recommends 130,000,000 barrels, Staff recommends 108,323,721 barrels.

Q. WHAT IS THE PRACTICAL EFFECT OF THE COMMISSION SETTING RATES USING A FIXED THROUGHPUT AMOUNT?

A. After the Commission sets the rates, *actual* throughput will determine Olympic's revenue. If the actual throughput is less than the throughput used to set rates, Olympic will under earn and customers will underpay. If actual throughput is greater than the throughput used to set rates, Olympic will over earn and customers will overpay. Historical data shows that throughput changes from month to month. The variation may "average" over time, such that Olympic earns a return that is exactly equal to what the Commission authorizes. However, it is much more likely that Olympic will either under earn or over earn.

Q. ARE OTHER OPTIONS AVAILABLE?

A. Yes. Tosco Witness Mr. Means discusses surcharges. The Commission has used a tracking mechanism in circumstances when costs are large and volatile, such as PCA's in the Gas Industry, and when revenues are volatile, such as the revenues from the sale of recyclable materials in the solid waste industry. A tracking mechanism would seem to resolve a very contentious issue in a way that would protect both Olympic and its customers.

Q. HOW DID STAFF ARRIVE AT THE ANNUAL THROUGHPUT LEVEL OF 108,323,721 BARRLS AND THE RELATED REVENUE AMOUNTS SHOWN IN COLBO PRO FORMA ADJUSTMENTS PF-1 AND PF-3?

A. I estimated a level of throughput at 80% pressure by comparing throughput levels from 1998 (pre-Whatcom Creek explosion) and the test year. Though Olympic has designated certain throughput data as confidential, the throughput figures I cite in my testimony are available in non-confidential deposition Exhibit No. 2 to Mr. Talley's deposition.

As can be seen from Page 21 of Exhibit No. ____ (RGC-6-C), Adjustments PF-1 and PF-3 pro forma throughputs and resulting revenues to more "normal" levels, under the assumption that the pipeline will be operating at higher capacity during the time for which rates will be set than it did in the test year. Company witness Mr. Talley enunciated many of the reasons for this increased throughput on Pages 10 and 11of his Exhibit No. ___ (BJT-1T).

Line 31 on Page 22 of Exhibit No. ___ (RGC-6-C) shows monthly throughput for 1998. The highest 1998 monthly throughput value is the 10,326,827 barrels for August. This amount has been carried forward and entered on Line 6 on Page 21 of Exhibit No. ___ (RGC-6-C). Olympic's throughput figures for each month of 2001 are shown in the right hand column on Page 21 of Exhibit No. ___ (RGC-6-C). The highest 2001 monthly throughput value is 9,621,389 barrels for July 2001, shown on Line 7.

As indicated at Line 35 on Page 22 of Exhibit No. ___ (RGC-6-C), the major reason July 2001, had such high throughput was because the Company ran two special 5-day cycles (10 days total) with no down time. The purpose was to see what the pipeline could handle "full-bore" (at 80% pressure), since this was the first time the entire system had been operational since the Whatcom Creek explosion.

The percentage relationship between these two highest months of July 2001, and August 1998, is 93.17%, as shown on Line 7 at Page of Exhibit ___ (RGC-6-C.) Multiplying the 93.17 % by the 1998 total throughput barrels of 116,265,991 on Line 1 yields an expected future throughput of 108,323,721 barrels at Line 11. This amount is 29.32 percent above the 83,761,308 barrel 2001 actual test period throughput shown on Line 13 at Page 21.

The distribution of the 108,323,721 barrels and resulting revenues is shown at Page 23 of Exhibit No. ___ (RGC-6-C). I subtracted the impact of the FERC interim increase at Line 26 on Page 21, as well as the Sea-Tac Terminaling charge at Line 22 on Page 21, as shown under the "Pro Forma Adj. No. 3" heading near the bottom center of Page 21. Additional details relating to these amounts are shown at Pages 23 and 27 of Exhibit No. ___ (RGC-6-C). The increased $3,270,843 for Washington Intrastate, and $5,282,461 for Interstate permanent rate impacts that flow from the additional barrels are indicated under the "Pro Forma Adj. No. 1" near the bottom right of the page. The Washington Revenue tax impact for both is shown on Line 34.

Q. DID YOU MAKE ANY SPECIAL ADJUSTMENTS FOR DOWNTIME IN YOUR ANALYSIS OF THROUGHPUT?

A. Not explicitly. Staff is unaware of any reliable, verifiable measurement of downtime for this pipeline. The Company does not separately track annual downtime. The July 2001, and August 1998 throughput data upon which Staff's calculation is based each have seasonally adjusted actual downtime embedded within them.

Q. PLEASE EXPLAIN COLBO PRO FORMA ADJUSTMENT "PF-2, REMOVE BAYVIEW TERMINAL AND RELATED."

A. Adjustment Colbo PF-2, "Remove Bayview Terminal and Related," addresses the appropriate regulatory treatment of Olympic's Bayview Terminal, located in Skagit County. Currently, Bayview is not being used for its intended purpose. The pipeline is actually diverted around it. As I mentioned earlier, when Bayview became operational, Olympic expected it to increase throughput by 35,000+ barrels per day due to increased scheduling and batching efficiencies. (See Page

24 of Exhibit No. ___ (RGC-6-C)). Bayview never realized that potential, and the Company has represented that a final engineering review and usefulness determination for Bayview will not be made until after the pipeline has been restored to 100 percent pressure. (See Exhibit No. ___ (RGC-9), Deposition of Mr. Talley, Tr. 22). Bayview is currently being used for office space and storage of petroleum products, diesel used in PIG runs, and water for hydrostatic testing of the pipeline.

Staff recommends removing Bayview-related test year expenses and rate base amounts from results of operations. Olympic should accrue Allowance for Funds Used During Construction (AFUDC) on its net investment in Bayview until the plant once again becomes used and useful for providing pipeline service. This is appropriate because of the uncertainty regarding timing, ultimate use, and throughput impacts of Bayview. Mr. Twitchell will answer questions concerning the AFUDC impacts of this adjustment. The amounts from Page 28 of Exhibit No. ___ (RGC-6-C) show additional detail regarding the expenses and rate base associated with the removal of Bayview Terminal from Olympic's accounts.

Q. YOU HAVE ALREADY TESTIFIED REGARDING COLBO PRO FORMA ADJUSTMENT PF-3, WHEN YOU DISCUSSED PF-1. SO PLEASE EXPLAIN THE NEXT PRO FORMA ADJSUTMENT: COLBO PRO FORMA ADJUSTMENT "PF-4, POWER & DRA AT 108,323,721 BBLS."

A. Colbo Adjustment PF-4, "Power & DRA at 108,323,721 bbls," adjusts to the pro forma level of electric power and drag reducing additive (DRA) costs associated with the increased revenue and throughputs from Colbo Adjustment PF-1. This adjustment is necessary because power and DRA expenses vary in proportion to the volume of product moving through the pipeline. Details concerning the summarized amounts for this adjustment are shown on Page 29 of Exhibit No. ___ (RGC-6-C).

Q. PLEASE EXPLAIN PAGE 29 OF EXHIBIT NO. ___ (RGC-6C), WHICH RELATES TO POWER AND DRA USAGE.

A. Page 29 is a summary of the results of a Staff study that updated information provided by the Company in response to Staff Data Request No. 25. Staff Data Request No. 25 asked Olympic to provide the details of the Company's power expenses by utility provider. Olympic provided a report for 1998 and 2001 that showed summarized monthly power costs for each of its facilities along the length of the pipeline.

I reviewed the 2001 power study information provided by Olympic, and updated it based on the permanent rates now in effect for each of the Company's electric service providers, to estimate the Company's present level of power expenses. For the earlier months of the year, when only portions of the pipeline were in operation, the information provided by Olympic was not representative of ongoing operations, even at 80% pressure. The Company provided no power expense information at all for December 2001.

The power costs for each month at each Company location were separated between demand charges, energy costs based on kilowatt hours consumed

(KWH), and "other." Page 29 of Exhibit No. ___ (RGC-6-C) is the result of that study. The individual detail sheets for power expense at each Olympic facility is provided at Pages 30 to 35 of Exhibit No. ___ (RGC-6-C).

Q. PLEASE EXPLAIN THE INFORMATION CONTAINED IN THE "RATE SCHED." COLUMN OF PAGE 29 OF EXHIBIT NO. ___ (RGC-6-C).

A. The symbols in the "Rate Sched." column refer to the individual utility provider and the rate schedule under which Olympic is being served. "P" means Puget Sound Energy (PSE). All of Olympic's facilities served by PSE are charged under either PSE Rate Schedule 31 or Rate Schedule 49. "C" means Cowlitz PUD, which uses Rate Schedule 9. "S" means Snohomish PUD, where Olympic is served under Rate Schedule 20. "T" means Tacoma Public Utilities, which uses Rate Schedule "G". The last entry of "PoSea" means the Port of Seattle, who provides power for Olympic's facilities at Sea-Tac Airport. The rate schedules are found at pages 30-35 of Exhibit No. ___ (RGC-6-C).

Q. WHAT IS THE NEXT COLUMN ENTITLED "FACILITY?"

A. The next column lists each Olympic facility along the pipeline that uses electric power.

Q. HOW DID YOU CALCULATE THE PRESENT LEVEL OF POWER EXPENSE AND SEPARATE IT BETWEEN THE FIXED PORTIONS AND THE VARIABLE PORTIONS?

A. Details of the Company's response to Staff Data Request No. 25 on Pages 30 to 35 of Exhibit No. ___ (RGC-6-C) split the total energy charge at each facility by month between fixed demand charges ("peak" kilowatts (KW)) hourly consumption for the month times the demand rate per kilowatt hour (KWH), variable consumption (KWHs consumed times usage rate per KWH), and fixed "other." Demand and "other" charges are relatively constant each month and do not vary by consumption. Energy consumption varies each month, depending on usage. The current permanent rate information for each utility is presented in the "Rate" column on the power usage detail sheet for each of Olympic's facilities. Where data was incomplete or unrepresentative, such as December 2001, I imputed KWH consumption and other data based on average data from other periods.

Q. PLEASE EXPLAIN THE "OTHER" ENERGY COSTS ON PAGES 30 TO 35 OF EXHIBIT NO.___ (RGC-6-C).

A. "Other" costs are fixed lease costs associated with unique facility improvements made by the utility company at the connection point between its supply grid and Olympic's facility. These amounts are individually negotiated between the customer (Olympic) and the electric service provider.

Q. PLEASE EXPLAIN THE "FIXED," "VARIABLE," AND "TOTAL" COLUMNS ON PAGE 29 OF EXHIBIT NO. ___ (RGC-6-C).

A. For each Olympic location listed, the "fixed" column includes the present total of "demand" and "other" costs from the individual detail sheets at Pages 30 to 35 of Exhibit No. ___ (RGC-6-C). The "variable" column contains the consumption/usage amounts from the same detail sheets. The "Total" column contains the sum of the fixed and variable components. For my 2001 power study, fixed costs were $1,716,049 and variable costs were $5,360,871, for a total energy charge of $7,076,919 shown on Line 14.

Q. WHY DO YOU SEPARATE POWER COSTS BETWEEN THE "VARIABLE" AND "FIXED" PORTIONS?

A. It is important to recognize that 24% of Olympic's power expense is fixed for those power cost expenses that relate to demand charges and the facility lease charges. Therefore, in proforming power costs, it is not proper to simply divide power cost by throughput to arrive at a cost per barrel amount. The Company did just that in its adjustment.

The Staff's pro forma power expense level is the sum of the fixed portion of the expense at Line 21 on Page 29 of Exhibit No. ___ (RGC-6-C), plus the variable portion calculated on Lines 22.

Q. PLEASE EXPLAIN THE 101,847,014 THROUGHPUT BARRELS SHOWN AT LINE 16 ON PAGE 29?

A. As I just mentioned, I imputed kilowatts for those months of 2001 that had power costs that were not representative. This included the early months of 2001 when only portions of the pipeline were operating, and December 2001, for which no information was provided. Therefore, to arrive at the variable energy cost per barrel, I also had to assume a throughput level that matched the updated kilowatts. For this purpose, I used the actual average 2001 throughput for the months of August through December (8,487,251 barrels from Line 10 on Page 21 of Exhibit No. ___ (RGC-6-C) multiplied by 12.) That calculation yields the 101,847,014 annualized barrels of throughput shown on Line 16 of Page 29 of Exhibit No. ___ (RGC-6-C). The variable power cost per barrel of throughput is calculated at $0.0526365 at Line 18 on Page 29, derived by dividing the variable power expense of $5,360,871 on Line 14 by the annualized throughput of 101,847,014 on Line 16.

Q. HOW DID YOU COMPLETE THE PRO FORMA POWER EXPENSE CALCULATION?

A. The pro forma increase calculation is shown on Lines 20 through 24A on Page 29 of Exhibit No. ___ (RGC-6-C). Variable power expenses at the 108,323,721 throughput level is $5,701,744 as shown on Line 21. That amount, combined with the fixed amount from Line 21, equals the total energy costs of $7,417,793 on Line 23. The pro forma power adjustment is $1,860,507, which is the difference (on Line 24A) between the pro forma power expenses on Line 23 and the restated power expense on Line 24. Similar procedures can be used to develop power costs for whatever throughput level the Commission decides is appropriate.

Q. WHAT IS THE SIGNIFICANCE OF THE POWER AMOUNTS ON LINES 8 AND 13 OF THE LAST COLUMN OF PAGE 29 OF EXHIBIT NO.___ (RGC-6-C), ASSOCIATED WITH BAYVIEW TERMINAL AND SEA-TAC?

A. Olympic's Sea-Tac facilities have recently been sold to the Port of Seattle. Colbo Pro forma Adjustment PF-11 "Remove Sea-Tac & Related" removes the power costs associated with the operation of the Sea-Tac facilities, since those costs will no longer be incurred. Colbo Adjustment PF-11 is discussed in greater detail later in my testimony.

The $176,690 Sea-Tac energy component of the adjustment is shown in the last column at Line 13 on Page 29. Colbo Pro forma Adjustment PF-2 "Remove Bayview Terminal & Related" at Line 8 develops a similar adjustment that removes the pro forma energy costs associated with Bayview. Since Bayview is not operational, it is proper to remove the related power expenses.

Q. WHAT IS THE SIGNIFICANCE OF THE DRA ADJUSTMENT ON LINES 25-32 ON PAGE 29 OF EXHIBIT NO. ___ (RGC-6-C)?

A. Lines 25 through 28 develop the $0.0211131 DRA cost per barrel at Line 29 on Page 29 of Exhibit No. ___ (RGC-6-C) is based on Olympic's actual 2001 experience. The increase amount on Line 32 relates to the DRA expense one would expect from Staff assumed rate year throughput of 108,323,721 barrels. In its case, the Company has combined power and DRA costs into a single entry on Line 4 "Operating Fuel and Power" on Schedule 21 of Exhibit ___(CAH-4).

Q. HOW DOES THE LEVEL OF STAFF'S PRO FORMA POWER EXPENSES COMPARE WITH POWER EXPENSES AS PRESENTED IN THE COMPANY'S CASE?

A. Staff's pro forma power expenses are lower. The Company updated power expenses based in some manner on August 2001, average power costs per throughput barrel. I testified earlier why a simple average power cost per barrel is inappropriate.

Olympic's power cost expense level also includes the estimated impact of Puget Sound Energy's proposed 18% commercial rate increase that is currently pending before this Commission. This impact is not known and measurable and should not be included.

The Company adjustment also makes no distinction between fixed and variable power costs. As I have explained, this distinction is important in a correct analysis of power expenses.

Q. PLEASE EXPLAIN COLBO PRO FORMA ADJUSTMENT "PF-5, OREGON INCOME TAX."

A. Colbo Adjustment PF-5 "Oregon Income Tax" eliminates the $65,547 credit balance in the State Income Tax expense account for year 2001 contained within the -$7,599,170 Income Tax amount shown on Line 26 on Page 1 of Exhibit No.

___ (RGC-6-C). These taxes relate to Oregon, not Washington, operations. They should be removed for that reason.

Q. PLEASE EXPLAIN COLBO PRO FORMA ADJUSTMENT "PF-6, MANAGEMENT/OH FEE?"

A. Services provided by BP Pipelines include financial, payroll and human resources, engineering, environmental, and computer resources. Colbo Adjustment PF-6 "Management/OH Fee" compares the amount of management/overhead costs Olympic has budgeted for BP Pipelines services in budget year 2002, with the charges from BP Pipelines that were actually recorded by Olympic for year 2001. The difference is $10,724. I have accepted this level of management and overhead fees for purposes of this case. Details are provided on Page 36 of Exhibit No. ___ (RGC-6-C) and Page 4 of Exhibit No. ___ (RGC-7-C).

Q. PLEASE EXPLAIN COLBO PRO FORMA ADJUSTMENT "PF-7, NORMALIZE OIL LOSS."

A. This adjustment represents the net change in value of contaminated products resulting from the intermix and interface of different petroleum products being shipped through the pipeline. Colbo Adjustment PF-7, "Normalize Oil Loss," normalizes the Oil (Gain)/Loss expense by the average of (gains)/losses experienced by the Company in the immediate 4 years prior to the Whatcom

Creek explosion. Details of the calculation are shown on Page 36 of Exhibit No. ___ (RGC-6-C).

The average loss for the four years was a relatively small amount: $6,694. I have eliminated the entire 2001 loss amount of $2,542,978 which was booked by Olympic, because a substantial portion of these losses resulted from the pipeline not operating, or operating at significantly reduced levels.

In its case, the Company has reduced Oil Loss to $550,000 as shown on Line 5, Schedule 21, Exhibit No. ___, (CAH-4). In support of that amount, Olympic supplied a worksheet in response to Staff Data Request No. 311. See Page 37 of Exhibit No.___ (RGC-6-C). That response shows that the Company's $550,000 amount is also premised on losses sustained during the period between March and June of 2001, when the Allen to Renton segment of the line was not operating. Even though Olympic's adjustment limits the loss for the rate year to only one transaction per month, the average of prior actual "normal" experience that I used yields a more realistic result.

Q. PLEASE EXPLAIN "COLBO PRO FORMA ADJUSTMENTS "PF-8, SPACE SAVER" AND TWITCHELL ADJUSTMENT "PF-9, PLANT IN SERVIECE 2001 – NRP."

A. Colbo Pro Forma Adjustment PF-8 "Space Saver" is an empty column that can be used by the Commission if another pro forma adjustment is necessary. Twitchell Pro Forma Adjustment PF-9 " Plant in Service 2001 – NRP" is sponsored by Staff witness Mr. Twitchell.

Q. PLEASE EXPLAIN COLBO PRO FORMA ADJUSTMENT "PF-10, INSURANCE."

A. Colbo Pro Forma Adjustment PF-10, "Insurance" adjusts insurance expense up to budgeted 2002 levels based on quotations from the Company's non-affiliated insurance provider, Marsh Insurance Company. Details of the increase amount is shown on Page 38 of Exhibit No. ___ (RGC-6-C). Although the increase is large compared with recorded amounts for 2001, Staff has accepted the Company's proposed amount in light of increases in insurance expense the Company has experienced since the 1999 Whatcom Creek explosion, as shown on Page 38. To the extent that any of the coverages apply to Olympic's facilities at Sea-Tac Airport which have recently been sold, the 2002 amount would have to be reduced. I did not have sufficient information from Olympic to make this adjustment.

Q. PLEASE EXPLAIN "COLBO PRO FORMA ADJUSTMENT PF-11, REMOVE SEA-TAC AND RELATED."

A. Olympic recently sold its Sea-Tac Airport facilities to the Port of Seattle, the owner of the airport. Colbo Adjustment PF-11, "Remove Sea-Tac and Related" removes the expenses and rate base associated with Sea-Tac that will no longer exist in the rate year. Additional detail is provided on Page 39 of Exhibit No.____ (RGC-6-C), including the rate base impact and gain on the sale as testified to by Mr. Twitchell. Page 39 is a recap of information obtained from the

Company in response to Staff Data Request Nos. 30 and 393. The $176,690 energy costs that are removed were developed on Page 29 of Exhibit No. ____ (RGC-6-C), as I earlier explained in connection with Colbo Adjustment PF-4.

Q. PLEASE EXPLAIN TWITCHELL PRO FORMA ADJUSTMENTS PF-12, "PRO FORMA INTEREST" AND PF-13, "PLANT IN SERVICE 2002 - NRP?"

A. These adjustments are both sponsored by Staff witness Mr. Twitchell. They are presented in Mr. Twitchell's Exhibit Nos. ____ (MLT-4) and ____ (MLT-6), and are explained further in his testimony.

Q. DOES THIS CONCLUDE YOUR DISCUSSION OF STAFF'S TOTAL COMPANY PRO FORMA ADJUSTMENTS?

A. Yes.

Q. PLEASE EXPLAIN THE CONVERSION FACTOR SHOWN ON THE FINAL PAGE OF YOUR EXHIBIT NO. ___ (RGC-6-C).

A. Conversion factors take the difference between present and allowed net operating income and calculate the change in total revenue (including revenue sensitive taxes) that will yield the proper amount of net operating income to achieve the target return.

In the development of revenue requirement, net operating income is a function of rate base, capital structure, cost of debt, and return on equity. Once revenues and expenses are restated and proformed, the remaining task is to find the level of revenues that yields the allowed net operating income consistent with the above component returns. Staff Witness Mr. Wilson has presented testimony recommending a rate of return of 7.40 percent.

My calculation of the conversion factor for this case is shown on the last page of Exhibit No. ___ (RGC-6-C). Similar calculations could be done for any recommended rate of return level.

The Washington Intrastate conversion factor is 0.637481. The Interstate conversion factor is 0.650000. In each case, the proper allowed change in net operating income on Line 8, when divided by the corresponding conversion factors on Line 7, yields the corresponding gross revenue amounts on Line 1 consistent with the 7.40 percent rate of return. For Washington Intrastate operations, Olympic's revenue requirement is $14,641,838, a deficiency of $78,614 (0.54%) over present levels.

Q. THE COMMISSION APPROVED THE 24.3% INTERIM RATE SUBJECT TO REFUND. WHAT DO YOU RECOMMEND THE COMMISSION DO REGARDING REFUNDS?

A. When the Commission approved the Interim Rages, there were a lot of unknowns regarding Olympic's operations, financial condition, and cost of providing service. Staff now understands those issues as presented in our testimony. Circumstances have not changed since January 2002. Staff believes the Company is not entitled to a 24.3% increase now, and the Company did not need a 24.3%

increase in January. Therefore, Staff recommends the Commission direct Olympic to refund the revenues collected under the Interim Rages. Because the Company will have colleted Interim Rates over a number of months, Staff recommends the Company have the option to refund over the same number of months.

Q. PLEASE EXPLAIN EXHIBIT NO. ___ (RGC-7-C), "FIXED BID BUDGET COMPARISONS."

A. Exhibit No. ___ (RGC-7-C) is a recap of the "Fixed Bid" presentation made to Olympic's Board of Directors when they were deciding who would operate the pipeline starting in July 2000 – Equilon, the then existing operator, or BP Pipelines. BP Pipelines won the bid, and in the process prepared estimates of their anticipated expenses, by year, through mid-2004. For the expense categories indicated, the Company has used these 2002 fixed bid budget amounts to restate their base year expenses up to budget level 2002 as specified in the fixed bid.

Q. PLEASE DESCRIBE EXHIBIT NO. ___ (RGC-7-C.)

A. Page 1 is a recap of the major individual categories within the fixed bid that are listed individually on Page 2 of Exhibit No. ___ (RGC-7-C.) For each expense category in Column (B) on Page 1, Column (D) is my analysis that shows how that amount was translated into the Company's case in Exhibit No. ___ (CAH-4.) Thus for each account listed, the test year values in Schedule 21 of Exhibit No. ___ (CAH-4) are budget year 2002 amounts. In some cases, the fixed bid amounts for an account are split between the operating and maintenance portion of the account and the general expense portion. Page 3 of Exhibit No. ___ (RGC-7-C) provides further details regarding payroll related items on Page 1, and Page 4 of Exhibit No. ___ (RGC-7-C) shows a similar level of detail for management fees.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.