Exhibit No. ____ (BJT-11T)
Docket No. TO-011472
Witness: Bobby J. Talley

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

REBUTTAL TESTIMONY OF BOBBY J. TALLEY

OLYMPIC PIPE LINE COMPANY

June 11, 2002

Exhibit No. _____ (BJT-11T)

OLYMPIC PIPE LINE COMPANY

REBUTTAL TESTIMONY OF BOBBY J. TALLEY

I. Name and Qualifications

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

A. My name is Bobby J. Talley and my business address is 2201 Lind Avenue, S.W., Suite 270, Renton, Washington. I am employed by BP Pipelines (North America), Inc. I am Vice President/District Manager of Olympic Pipe Line Company ("Olympic"), and I am responsible for managing Olympic Pipe Line Company's operations.

Q. Please describe your educational and professional background.

A. My educational and professional background is included in my direct testimony at Exhibit No. ___ (BJT-1T).

Q. Have you presented previous testimony in this docket, No. TO-011472?

A. Yes, my initial testimony in support of Olympic's request for rate relief is provided in Exhibit No. ___ (BJT-1T).

II. Summary of Testimony

Q. Please summarize your testimony

A. I will respond to the testimony of Staff and Intervenors in seven areas:

First, I respond to Staff and Intervenors regarding the consequence of their recommendations. Olympic needs $66 million over the next three years to restore the pipeline system to 100% operating pressure, for additional safety upgrades, and for other capital improvements. Without our requested rate increase there will likely be no money for those capital projects as Larry Peck and Howard Fox testify. That is the consequence of Staff and Intervenors' rate recommendation, if accepted. We also now question if we can start any more new projects in the 2002 capital budget because Intervenors have recommended that Olympic refund the temporary FERC rates and the WUTC interim rates. That refund liability would exceed all funds available for the 2002 capital budget, as Howard Fox testifies.

Second, the reason the pipeline is at 80% pressure now is because of the need to test the system for ERW seam defects, and to make any associated repairs. Federal regulations now require all major pipelines to test in High Consequence Areas, including for all pre-1970 steel pipe made with low-frequency Electrostatic Resistance Welding (ERW). Olympic's system went into operation in 1965 and consists of significant amounts of pre-1970 low-frequency ERW steel pipe. The great majority of Olympic's system is described as being in High Consequence Areas. Intervenors confuse the cause of the Whatcom Creek incident, which was *not* due to an ERW steel pipe defect, with the OPS order following a 1999 hydro test in which an ERW steel pipe seam failed. I thought I had made this clear in my direct testimony, but Intervenors remain confused.

Third, because Intervenors are confused about the ERW steel pipe testing and repairs, they are confused about why it has taken the long time and millions of dollars of capital to work on the system. Since BP Pipelines became the

operator of Olympic on July 1, 2000, we have worked hard and spent tens of millions of dollars to test, repair and replace the pipe, to install additional communications and controls, to construct containment around valve sites and other facilities; to evaluate the entire system's check and block valve replacements and install numerous additional valves; and to upgrade in other safety-related areas. We have added earthquake and landslide mitigation projects to the list, and we have devoted hundreds of hours of time for community education sessions on the need to avoid excavation-related damage to the pipeline system.

Fourth, the Bayview terminal was used by Olympic and was useful in the provision of the pipeline's services in the test year for testing, for emergency pressure relief, and for storage purposes. Bayview also served as a major staging area for work during the test year and served as the headquarters for the Northern Area Maintenance Team. It will be more useful when the system is at 100% operating pressure, but it was used by Olympic and it was useful in providing Olympic's pipeline services in the test year. There is confusion on what Bayview can do and how. Even though I have tried to explain this before, including in my deposition, Staff and Intervenors continue to be confused about the difference between capacity and throughput, and they continue to be confused about how products move through Olympic's system.

Fifth, Olympic now can adjust the test year throughput volumes with actual known and measurable data based on the last 10 months instead of estimating an adjustment. Staff's test year volume was approximately 83,000,000 barrels per year. Exhibit No. ___ (RGC-6-C) at 23. As testified to by Ms. Hammer, actual data for the last 10 months, as adjusted by two months of forecasts, show an

annualized volume of approximately 103 million barrels per year (or approximately 282,000 BPD). This actual known and measurable amount compares to the estimate we made in our initial filing of approximately 105 million BPY. Staff and Intervenors have proposed a throughput adjustment to test year data that is not known and measurable. Intervenors assume that volumes in the rate year will be based on 100% pressure, but that is an assumption that is not based on fact. The earliest pressure can realistically be at 100% would be in 2004, which is after the rate year. And, as we describe elsewhere, if Intervenors' recommendations on rates are followed, Olympic will not be able to return to 100% in the reasonably foreseeable future.

Sixth, in response to a suggestion from Staff, Olympic proposes that rates be automatically adjusted to actual throughput levels on a periodic basis. Staff discusses such an automatic tracking mechanism and Olympic believes this would be a good idea. Such a tracking mechanism would, as Staff suggests, protect shippers from any potential for overearning in the event of unexpectedly high throughput. It would also protect Olympic from underearning in the event of unexpectedly low throughput. As Staff states, it would also remove a potentially contentious issue of how to adjust the test year throughput volumes. Olympic proposes that a collaborative be established to work towards developing such an automatic tracking mechanism.

Seventh, pipeline regulations have permanently and significantly increased O&M and capital costs for Olympic and these costs will continue to occur during the rate year. Although we cannot predict each item in the bucket of increased costs, we know that the bucket has become permanently larger.

III. Olympic's Need For $66 Million of Additional Capital Over the Next Three Years

Q. What are Olympic's capital needs for the next three years?

A. Olympic needs $66 million in additional capital over the next three years (i) to complete the testing, evaluation and repair of ERW pipe in its pipeline system in order to restore that system to 100% maximum operating pressure, (ii) for safety upgrades mandated by federal regulations and BP Pipelines' internal standards, and (iii) for other capital improvements and maintenance projects. A summary of Olympic's three-year capital budget showing a need for $66 million in additional capital is attached to my testimony as Exhibit No. ___ (BJT-12C).

Q. What is the effect of Staff and Intervenors' recommendations on Olympic's capital budget?

A. If the Commission adopts the recommendations of Staff and Intervenors, Olympic will not be able undertake or complete the capital projects listed in Exhibit No. ___ (BJT-13C). If Olympic is unable to complete these projects, it would not be able to return the system to 100% maximum operating pressure. One question is whether Olympic is able to start *any* more new capital projects in the 2002 capital budget because Staff and Intervenors have recommended that Olympic refund the temporary rates currently in effect at both the Federal Energy Regulatory Commission and the Washington Utilities Commission. Those refund liabilities exceed all funds available for the 2002 capital budget, as Howard Fox testifies.

IV. Pre-1970 ERW Steel Pipe Pressure Restrictions

Q. Why does Olympic have an 80% pressure restriction?

A. The reason the entire pipeline is at 80% pressure now is because of the need to test the system for longitudinal seam defects, and to make any associated repairs. Federal regulations now require all major pipelines in the United States to test all pipe in High Consequence Areas (HCA), with emphasis on pre-1970 steel pipe made using the low frequency Electrostatic Resistance Welding (ERW) process. Olympic's system went into operation in 1965 and significant amounts of pre-1970 low-frequency ERW steel pipe, much of which is underneath waterways. Most of Olympic's system is in HCA. Intervenors confuse the cause of the Whatcom Creek incident, which was *not* due to an ERW steel pipe defect, with the OPS order placing the 80% pressure restrictions on Olympic's entire system that was prompted by a September 1999 hydro test in which a section of low-frequency ERW steel pipe seam failed at the longitudinal seam. I thought I had made this clear in my direct testimony, but Intervenors remain confused.

My direct testimony stated: "[t]hat order limited Olympic's system to a maximum of 80% of its prior maximum allowable operating pressure." Exhibit No. ___ (BJT-1T) at 3, lines 20-21. This limitation arose from a rupture during a hydro test of a pipeline segment on September 18, 1999. During that test, an ERW steel pipe seam failed. Exhibit No. ___ (BJT-13-a). "Metallurgical analysis of the pipe determined that the September 18 failure occurred as a result of a manufacturing defect in the seam weld. . . . This pipe had been manufactured by Lone Star Steel Company prior to 1970 using a low frequency electrostatic resistance weld ('ERW') process." Exhibit No. ___ (BJT-1T) at 4, lines 18-19.

By contrast, the Whatcom Creek incident was *not* caused by an ERW steel pipe seam failure; it was caused by excavation damage to Olympic's pipeline by a third party. See Exhibit No. ___ (BCB-14).

OPS has indicated it will not permit Olympic to use 100% maximum operating pressure until it tests its entire system with either hydro tests or a Transverse Flux Inline Inspection (TFI) tool, which tests for ERW seam defects. Bob Batch and I recently met in Denver with Chris Hoidal of OPS and he reconfirmed his previous letters, Exhibit No. ___ (BCB-16) and statements made to us regarding the testing, evaluation and repairs that OPS would require before considering to allow the system to be operated at 100% maximum operating pressure. He also said he may have given Staff the incorrect impression that Olympic could achieve 100% pressure without TFI testing, evaluation and repair of the entire system.

Q. Are other major pipelines in the United States required to test, evaluate and repair their pipelines in High Consequence Areas?

A. Yes. All major U.S. pipelines must follow regulations of the Integrity Management Program to test their pipe. Other pipelines have pressure restrictions due to ERW seam defect issues.

V. Restarting of Pipeline Operations

Q. Please address claims that Olympic has delayed the return of the pipeline to 100% maximum operating pressure.

A. Tesoro witness John Brown complains about the time it has taken to test and return the pipeline to 100% operating capacity. Exhibit No. ___ (JFB-1T) at 55. Mr. Brown, who is not an engineer and has no pipeline operations experience, is simply wrong. The testing, evaluation, and repairs to Olympic's entire 400-mile

pipeline system is a lengthy and expensive undertaking. If a pipeline segment must be replaced as the result of a defect indicated during testing, it is a major undertaking. I thought I had that made clear in my direct testimony, Exhibit No. ___ (BJT-1T) at 7-8. In general terms, that process works as follows:

When Olympic completes running the TFI tool on one of its line segments, the data is then analyzed in a manual evaluation process. The information is much like reading x-rays--it takes skilled personnel with experience to determine whether the data is indicating a potential defect or not. The evaluation process also requires test excavations to correlate the testing data with actual pipeline conditions and determine whether data indicates anomalies that would warrant further excavation and potential repair. Olympic is continuing to evaluate data from TFI tool runs made last fall.

Once anomalies are identified for excavation and potential repair, Olympic must obtain appropriate permits and site access authorization. Obtaining such permits can be a lengthy process and may take up to a year or more once the application is completed. The timing of an excavation also is generally dependent on weather conditions. In addition, some of Olympic's excavation work may only take place during "fish windows," when the excavation would not impact certain fish habitats. The speed with which Olympic will be able to complete the necessary excavations and repairs depends on the nature and extent of such excavations and repairs required, the location of such excavations, and the other factors listed above.

For instance, the 16-inch pipeline repair program based on the inspection data obtained from the last deformation internal inspection tool run (which checks the roundness of the pipe) and the magnetic flux internal inspection tool run (which

checks for corrosion and related metal loss) resulted in over 60 excavations. Each excavation cost approximately $40,000, and it was difficult to efficiently schedule and perform more than a few excavations per week.

Recently enacted Federal pipeline regulations require all major U.S. pipeline companies to perform integrity management programs which involve the same approach to testing evaluation and repair that Olympic is performing. 49 C.F.R. § 195.452.

Thus, Mr. Brown is incorrect that Olympic would not have had to perform these test evaluations and repairs if the Whatcom Creek incident had not occurred. The testing program is required under federal law and is a safe and appropriate measure to take. If Olympic cannot complete the testing, evaluation, and repairs due to lack of funds, additional corrective actions might be necessary to ensure safe operation.

The earliest Olympic could complete the testing, evaluation and repairs to return to 100% pressure would be the second quarter of 2004. Exhibit No. ___ (BJT-14C). But, as Olympic noted in its interim rate case rebuttal testimony, if Olympic does not have sufficient funds, it would defer the capital spending on the TFI testing, evaluation and repair program. Exhibit No. ___ (BCB-22T) at 9.

Q. Would deferring the TFI program compromise safety?

A. No. As Bob Batch said in his testimony in January, Olympic could continue at 80% pressure or less. In any case, Olympic would shut down any line segment rather than allow it to become unsafe, just as it has in the past. Exhibit No. ___ (BCB-22T) at 9.

VI. The Bayview Terminal is Used by Olympic and is Useful in the provision of Olympic's pipeline services

Q. Please describe the Bayview Terminal.

A. The Bayview Terminal is located near Anacortes. It has a tank farm capable of storing 500,000 bbls of product. Exhibit No. ___ (BJT-15). It also provides overpressure relief for the incoming lines from the north, provides bypass capability around the facility, is used as a staging area for pipeline repair and replacement projects on the northern end, and includes a multi-unit pump station. It also consists of offices and maintenance shop space for the Northern Area Maintenance Team (10 individuals). One use of Bayview will be to store and consolidate ("batch") product shipped from the Ferndale and Cherry Point refineries. Instead of frequently switching pipeline segments from product to product, which would cause downtime and lost revenues for Olympic, storing product at Bayview would allow Olympic to consolidate several batches at once so that they could be moved downstream more efficiently. Also, refineries sometimes nominate and fail to supply a product in time, which causes empty space in the pipeline and lost revenues. Bayview tank storage would allow Olympic to fill in gaps caused by refineries not meeting their scheduling commitments. The operation of a supplemental storage system could also result in increased efficiency on the system because it would provide more consistent flow and reduce the number of times the line would have to be shut down and

then restarted so that the product transported could be changed. Exhibit No. ___ (BJT-16C).

Q. What is the operational history of Bayview?

A. The Bayview Terminal went into partial service in December 1998 and full service in April 1999. Following the pressure restrictions on Olympic's system in 1999, the Bayview Terminal's operation was modified and petroleum products rerouted. However, the Bayview Terminal continues to provide valuable storage, emergency pressure relief, maintenance and repair staging areas, and other services.

Q. When was the Bayview Terminal modified and how?

A. The Bayview Terminal was modified in April 2000 to allow product from the refineries to bypass Bayview and go directly into the southern parts of the pipeline system. This modification allowed Bayview to be bypassed in order to allow Olympic focus on restoring the system to 100% pressure. The bypass piping modification to the existing Bayview manifold added additional flexibility, which allowed Olympic to run product past Bayview, restore pressure on a more expedited basis, and provide future flexibility for the movement of products into or around Bayview either simultaneously or separately.

Q. What were the other factors involved in adding additional flexibility to bypass Bayview?

A. With Bayview on the system without the bypass option, it was not possible to run pipeline inspection tools through the Bayview facility due to its configuration.

Thus, the bypass enabled the inspections tools necessary to restore the system to 100% pressure to inspect both segments from Ferndale and Anacortes to Allen.

Q. Did the bypass change the over pressure protection capability and function of Bayview?

A. No. The over pressure protection remains used and is useful in the provision of pipeline services, as it has been since December of 1998. The Bayview Terminal continues to provide overpressure protection by being linked to the pipeline system. A Bayview tank and associated pressure valves acts as an overpressure relief system for the northern segment of Olympic's pipeline system, providing a valuable and useful service since December 1998. The over pressure relief feature of the Bayview Terminal has been in continuous use and useful operation from that time to the present. This overpressure system works in the following way: If there is an overpressure on the northern segment of the line, a relief valve will open at the Bayview Terminal and product would flow into Tank 209 protecting the system and enhancing safety of that portion of the system.

Q. Was Bayview used by Olympic and useful to Olympic's provision of pipeline services during the test year?

A. Yes, Olympic used the Bayview Terminal during the test year for the following pipeline operations: over pressure protection for the northern segment described above, storing petroleum products, storing line fills related to repair work on the pipeline, storing water for use in hydro-testing and storing diesel fuel for use in "smart pig" runs that test the integrity of the pipeline system. These uses were essential to restarting the closed segment of the pipeline, ensuring the integrity of the pipeline system, and supporting restoration of all pipeline segments to 100% maximum operating pressure. In addition, Bayview

continues to serve as a staging area for testing and repair work on the pipeline, as well as storage for emergency and spill response equipment and supplies. Also, the North Area Maintenance Team continues to use Bayview as their operations base and headquarters.

Q. What are Staff's recommendations regarding the Bayview Terminal?

A. Staff witness, Kenneth Elgin, said:

> In short, the pipeline currently bypasses the Bayview Terminal. Bayview is not operating as intended and may not operate as intended for another year or more. Staff recommends Bayview be removed from results of operations, but that it be allowed to accrue AFUDC until it comes back on line.

Exhibit No. ___ (KLE-5T) at 15.

Staff witness Robert Colbo recommends that the Bayview-related test year expenses and rate base amounts be removed from results of operations. Mr. Colbo also recommends that 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." Exhibit No. ___ (RGC-4T) at 33, lines 9-11.

Q. Do you agree with Staff's recommendations?

A. No. Staff's recommendations are based on the incorrect assumption that the Bayview Terminal was not used by Olympic and was not useful in the provision of its pipeline services during the test year period. Finally, I note that no Staff witness has visited Bayview, and no Staff witness has any experience in oil pipeline operations.

As I discussed above, the Bayview Terminal was used by Olympic in the test period to provide essential pipeline services to test and ensure the integrity of the pipeline system, such as storage of diesel fuel for "smart pig" runs, storage of water for hydro-testing, storage of petroleum products, storage of line fills and as a staging area for testing, repair and other work on the system, as well as storage for emergency spill response equipment and supplies. Also, the North Area Maintenance team has its headquarters and operations base at Bayview.

Staff's own witness, Mr. Colbo, said Olympic is currently using the Bayview Terminal. Exhibit No. ___ (RGC-4T) at 33, lines 5-7 ("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.") (emphasis added). He merely states that "[c]urrently, Bayview is not being used for its *intended* purposes." Id. at 32, lines 14-15 (emphasis added).

Q. What other adjustments do Staff make regarding the Bayview Terminal?

A. Staff recommends that pro forma energy costs associated with Bayview be removed. Staff recommends that because "Bayview is not operational, it is proper to remove the related power expenses." Exhibit No. ___ (RGC-4T) at 39, lines 14-15. Staff also recommends the pro forma Supplies and Materials relating to the Bayview Terminal be removed as well.

Q. Do you agree with Staff's recommendation on these points?

A. No. First, Staff's recommendation incorrectly assumes that the Bayview Terminal is not used by Olympic and is not useful in the provision of pipeline

services. As explained above, Olympic currently uses the Bayview Terminal for useful and valuable pipeline services.

Moreover, if the Bayview Terminal were truly "not operational" as Staff states, it would use no power or supplies and materials costs associated with it. As it is, these costs come to almost a half a million dollars, which is consistent with Olympic's point that Bayview is operational.

Q. Have you reviewed the recommendations of the Intervenors regarding the Bayview Terminal?

A. Yes. Tesoro recommends that the Bayview Terminal be treated as a plant in service. Exhibit No. ___ (JFB-1T) at 35, lines 1-9. But, Intervenors make incorrect assumptions on throughput based on an erroneous interpretation of Olympic's December 28, 1998, filing for a rate increase relating to the Bayview Terminal.

Q. Please explain.

A. Witnesses for Intervenors (Mr. Brown and Dr. Means) continue to confuse capacity with throughput. Mr. Brown incorrectly states that Olympic said the Bayview Terminal would "increase *throughput* on the pipeline system from 35-40,000 BPD." Exhibit No. ___ (JFB-1T) at 57, lines 10-11 n.6 (emphasis added). Dr. Means incorrectly states that "[Olympic] also has projected that the Bayview terminal will allow it to increase its *throughput* by 35,000 to 40,000 BBD [sic]." (emphasis added). Exhibit No. ___ (RCM-1T) at 29, lines 5-7.

But Olympic did not say the Bayview Terminal would increase *throughput* by 35,000 to 40,000 BPD. Instead, Olympic's filing said the terminal would

"[i]ncreas[e] system *capacity* by 35,000 to 40,000 bpd" (emphasis added). Exhibit No. ___ (RGC-6-C) at 26.

Q. Is there a difference between throughput and capacity?

A. Yes. Capacity is the maximum mechanical and hydraulic ability of the system to transport petroleum. Throughput is how much petroleum is actually transported. While the capacity of a system may be a certain level, the throughput of the system will be affected by such things as product mix, downtime, failure of a shipper to ship product it has nominated, scheduled maintenance, batching issues, stripping, etc.

A good analogy is a pipeline system's capacity and a highway's capacity. A highway may have the capacity to accommodate 100,000 cars a day. But, it will rarely be at full capacity. Weather, construction, the amount of trucks, and road repairs, for instance, all reduce the highway throughput. The number of cars that actually travel the highway in a given month or year is similar to the throughput on a pipeline system.

When Olympic said Bayview would increase *capacity* by 35,000 to 40,000 BPD, this did *not* mean that *throughput* would increase by 35,000 to 40,000 BPD.

Q. Do you know how the *throughput* assumption in the 1998 rate filing was calculated?

A. No. The filing assumes a throughput of 121,349,000 barrels per year. That is the assumption used to set Olympic's rates per barrel. Although we have looked further, we have not seen any of the background calculations to support the 121,349,000-barrel-per-year throughput number. The throughput level assumed

for the rates in effect prior to the Bayview filing (pursuant to Olympic's rate tariff No. 19) was 116,974,000 barrels. Thus, the December 28, 1998 filing assumes that Bayview would increase throughput from 116,974,000 to 121,349,000 BPY, or 4,375,000 BPY, or 11,986 BPD. It is therefore not accurate to say that the December 28, 1998 filing represented that Bayview would increase throughput by 35,000 to 40,000 BPD.

Q. Have you attempted to determine how the Bayview *capacity* assumption of 35,000 to 40,000 barrels per day was calculated?

A. Yes, we understand that the prior operator, Equilon, made statements that capacity would be increased by that amount. However, we have looked through all the records available to us, we have asked the Equilon employee who filed the Bayview tariff, Joan Weessies, as well as other Equilon employees who may have been involved in the December 28, 1998 filing. Having made all of those inquiries and looked for any basis for the calculations, we cannot find any support for that capacity assumption. It appears to us to be wrong.

Q. Was Bayview Terminal an appropriate investment?

A. Yes. When it returns to full operating capacity, Bayview will help consolidate products more efficiently and help fill in product when refineries fail to ship nominated and scheduled amounts. Even during the period of pressure restriction, the Bayview Terminal has provided essential pipeline services.

VII. Test Year Throughput Adjustments

Q. Please summarize Olympic's suggested throughput level for ratemaking purposes in its direct case.

A. All segments of Olympic's system came back on line (at reduced pressure) in June 2001. Thus, when Olympic filed its direct case at the Federal Energy Regulatory Commission (FERC) in August 2001, Olympic's pipeline system had only been operational at 80% pressure for one full month, July 2001. Based on use of July 2001 as adjusted, Olympic suggested an adjustment to test period throughput levels of approximately 105 million BPY levels as relied upon by Mr. Collins and projected for the test period.

Q. Does Olympic have actual throughput numbers for the time period from and including July 1, 2001 through and including May 31, 2002?

A. Yes. Olympic has been operating the entire pipeline system at 80% maximum operating pressure since July 1, 2001. Based on these actual throughput numbers, Cindy Hammer suggests an annualized throughput amount of approximately 103 million BPY.

Q. Do you consider this the best evidence of the level of throughput Olympic is likely to achieve during the rate year if it continues to operate the entire pipeline system at 80% maximum operating pressure?

A. Yes.

Q. Have you reviewed the recommended treatment of throughput levels for ratemaking purposes suggested by Staff and Intervenors?

A. Yes.

Q. Has Olympic supplied throughput data to Staff and Intervenors?

A. Yes. Olympic has produced hundreds of pages of actual throughput data to Staff and Intervenors by shipper, by destination, by year, by month and by segment. Tesoro's witness Mr. Grasso produced a chart showing throughput from 1995 to the present. Olympic has provided supplemental throughput data by month to Staff and Intervenors. Olympic provided actual throughput levels past July 2001 in December 2001 in response to WUTC Staff Data Request No. 26 in February. On March 22, 2002, Olympic responded to Tesoro Data Request No. 133 by stating:

> It should be noted that Olympic's direct testimony is based on a level of throughput that has proven to be higher than levels experienced. Olympic will perform additional calculations, based on actual levels that will be more representative of product movement for rate setting purposes.

Copies of Olympic's data responses concerning throughput are attached to my testimony as Exhibit No. ___ (BJT-17C); see also, Exhibit No. __ (BCB-27).

Q. Please summarize Staff's recommended throughput level for ratemaking purposes?

A. According to Staff, Olympic's test year throughput for the test year chosen by Staff (January 2001 through December 2001) was 83,761,308 barrels. Exhibit No. ___ (RGC-1T) at 31, lines 18-19.

Staff has attempted to adjust test year throughput by speculating on expected throughput at 80% maximum operating pressure. Using various assumptions, Staff recommends that the Commission adjust the test year volume to a throughput level of 108,323,721 BPY at 80% pressure. Exhibit No. ___

(RGC-1T) at 26, lines 6-7. Staff arrives at this number by taking Olympic's 1998 throughput volume of 116,265,991, erroneously adds a "capacity " (*not* a throughput) estimate of 35,000 to 40,000 BPD for Bayview, and then adjusts this amount by a series of calculations, the basis of which appears unclear and arbitrary. Id. at 31. Staff does not use the throughput assumption of approximately 12,000 BPD from the December 28, 1998 filing.

Q. Have you reviewed the proposed adjustment to test year throughput recommended by Intervenors?

A. Yes. Tesoro recommends that the Commission adjust the test year throughput to be 121,349,000 BPY or 332,5000 BPD, Exhibit No. ___ (JFB-1T) at 50, lines 11-13. Mr. Brown's number derives from a number of assumptions, all of which are erroneous and none of which is based on known and measurable conditions. Mr. Brown assumes 100% operating pressure for the rate year, when operating pressure will remain at 80% until the beginning of 2004 at the earliest (assuming Olympic is granted the rate relief it seeks in this proceeding). Second, Mr. Brown adds 35,000-40,000 BPD of "capacity" (not throughput) based on the erroneous interpretation of Olympic's Bayview filing. Third, Mr. Brown also assumes additional throughput based on new batching and throughput control procedures, systems, and software, none of which he identifies.

Tosco recommends an assumed annual throughput amount of 130 million barrels. Exhibit No. ___ (RCM-1T) at 3, lines 14-15. Like Tesoro, Tosco assumes 100% pressure for the rate year and erroneously adds 35,000 to 40,000 BPD of "capacity" (not throughput) supposedly resulting from the full operation of the Bayview Terminal.

Neither Intervenor refers to the actual throughput assumption in the December 28, 1998 filing, which was 12,000 BPD.

Q. Do you agree with the recommendations of Staff and Intervenors on adjustments to test year throughput?

A. No. The throughput levels recommended by Staff and Intervenors are based on incorrect assumptions. Tesoro and Tosco both assume that pressure will be 100% during the rate year, when in fact it will be 80% or less.

In her testimony, Cindy Hammer proposes an annualized volume of approximately 103 million BPY. This is the best evidence of the level of throughput Olympic is likely to achieve during the rate year.

Q. Staff's testimony suggests an automatic adjustment mechanism for throughput. What is Olympic's position on an automatic adjustment mechanism?

A. In response to Staff's suggestion, Olympic proposes that the Commission establish a collaborative process between Olympic and its shippers to set an automatic adjustment mechanism for throughput. Such a mechanism would lower the rate per barrel if volumes increase above the annualized actual average for the last ten months and would raise the rate per barrel if actual volumes decrease below this average. Staff indicates support for an automatic adjustment mechanism, but does not provide details. Exhibit No. ___ (RGC-4T) at 30. Tosco likewise states that it does not oppose such a mechanism, but prefers a surcharge mechanism instead. Exhibit No. ___ (RCM-1T) at 32, lines 13-15. A collaborative process would permit the details to be worked on regarding adjustments to throughput and resolve one of the most contentious and complex issues in this case.

Q. Intervenors suggest that Olympic's adjusted throughput number may allow Olympic to see a future windfall.

A. With an automatic adjustment mechanism, that is not possible.

VIII. New Safety Regulations and Their Impact on Olympic

Q. Please describe the effect of new safety and other regulations on recurring costs.

A. Yes. Olympic witnesses Dan Cummings and Tom Wicklund testify to the state and federal regulations with which Olympic must comply.

There are significant new federal regulations and other regulations that will permanently increase Olympic's costs for O&M as well as capital costs. The costs incurred by Olympic to meet new laws and regulations will continue to recur each year.

Because new regulations continue to be proposed, it is not likely that the new higher level of costs will decrease. It is certain that they will instead increase.

Q. In your view, is it appropriate to remove all or substantially all of the recurring maintenance and safety-related costs from Olympic's expenses?

A. No. In reviewing these expenses, they are all of the nature and type that will occur in the future. Many of these costs are related to the maintenance of the pipeline and Olympic's compliance with the new state and federal regulations.

Q. Please provide examples.

A. Tesoro assumes that the safety and maintenance expenses Olympic incurred in the test period will never occur again. Tesoro's witness, Mr. Brown, even

assumes that Olympic will not have to clean and mow its rights-of-way. See Exhibit No. ___ (JFB-1T) at 42.

But, pipeline and tank painting, operational improvements, reconditioning aging mainline pumps, geotechnical projects, are all maintenance expenses that will continue to occur in the future. Paint on tanks and the pipeline will continue to be subject to weather and will continue to wear away. Mainline pumps will continue to age, and geotechnical projects will always be required in an area that is subject to earthquakes. While each specific cost item listed in response to DR No. 307 and on Exhibit No. ___ (BJT-13C) may or may not need to recur in the rate period, the overall general nature and level of these expenses will recur.

The safety projects listed in response to DR No. 307 and on Exhibit No. ___ (BJT-13C) will recur as well. Olympic will need to continue to carry out close interval surveys. Cathodic protection will continue to be used. Olympic will need to conduct river surveys, franchise related pipe work, casing relocations, and engage in franchise-related risk assessment services. Lines will continue to need to be lowered.

In short, the expenses listed in response to DR No. 307 are the types of expenses the pipeline will continue to incur, year in and year out.

Q. Does this conclude your present testimony?

A. Yes.

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