

Exhibit No. \_\_\_\_ (CAO-8)  
Docket No. TO-011472  
Witness: Christy Omohundro

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

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EXHIBIT TO  
REBUTTAL TESTIMONY OF  
CHRISTY A. OMOHUNDRO

OLYMPIC PIPE LINE COMPANY

June 11, 2002

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FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D. C. 20426

OFFICE OF THE CHAIRMAN

May 3, 1979

Mr. J. Dexter Peach  
Director  
Energy and Minerals Division  
U.S. General Accounting Office  
Washington, D. C. 20548

Dear Mr. Peach:

The General Accounting Office's draft report on regulation of petroleum pipelines is, I believe, a good effort that will improve the public's understanding of the issues surrounding oil pipelines. As the draft report indicates, many of these issues are contained in proceedings before the Commission, thereby limiting my ability to fully react to your recommendations. But because these issues are indeed important, I would like to suggest a few points that may deserve added emphasis in your report.

The regulatory regime applicable to oil pipelines differs significantly from that applicable to natural gas pipeline or electric utility regulation. In general, electric and natural gas utility regulation tends to have a more direct and immediate impact upon ultimate consumers than is the case with oil pipelines. Electric and natural gas utilities are generally regulated at the point of generation (production), transmission, and distribution. Under this regime the consumer is assured that the benefits of regulation will flow through to the point of final sale. These same assurances do not apply in the case of oil pipelines.

Utility-type regulation covers more than half of the delivered price of electricity and natural gas, whereas oil pipeline costs represent a much smaller share of the final cost of most petroleum products. For example, while the average delivered price of electricity to residential customers was 4.4 cents per kilowatt hour in 1978, the unregulated fuel component of such cost was only 1.7 cents, so that 61 percent of the delivered price was regulated at the state or Federal level. In contrast, petroleum pipeline

costs, comprise 4 or 5 percent of the delivered price of petroleum products. Accordingly, the benefits of oil pipeline regulation to the consumer, are considerably smaller than for other regulated energy forms. Moreover, there is no means of assuring that these benefits will be flowed through to consumers at the point of final sale. Consequently, oil pipeline regulation may have a more significant impact on intra-industry income distribution than on total consumer costs of petroleum products.

There are also important differences between the statutory purposes of electric and natural gas utility regulation versus that for oil pipelines. The Federal Power Act and the Natural Gas Act are fundamentally intended to protect final consumers from unjust or unreasonable prices which may be imposed upon them by utilities which have been given virtual monopoly status. This purpose is also embodied in the Interstate Commerce Act as well, but an equally important purpose of that Act is to protect shippers from discriminatory and concessionary practices by integrated oil companies. The allocation aspects of oil pipeline regulation are far more prominent than in the legislative directives creating federal regulation of electric and natural gas utilities.

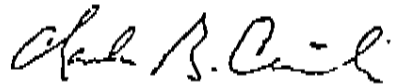
I think it would be helpful to your readers to point out in the final report that the nature of the oil pipeline industry and its relationship to final customers suggest that the regulatory objectives comparable to oil pipelines may differ from the objectives commonly understood as applicable to natural gas or electric utilities.

While the Commission is in the process of reviewing the question of the appropriate ratemaking standards that should be applied to the oil pipeline industry, it comes to this task with the same observation made by the GAO, namely, that oil pipelines are an extremely efficient mode of transportation. Any restructuring of oil pipeline regulatory practices must take into account the potential impact of such a change on incentives to construct or expand oil pipelines.

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With respect to your conclusions on the need to extend jurisdiction to terminal facilities, you should be aware that the Commission, in an order issued on April 19, 1979, in Docket No. OR78-10 asserted jurisdiction over the marine terminal facilities owned and operated by PACTEX.

Sincerely,



Charles B. Curtis  
Chairman