

Exhibit No. _____ (LP-1T)
Docket No. TO-011472
Witness: Larry Peck

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

REBUTTAL TESTIMONY OF
LARRY PECK

OLYMPIC PIPE LINE COMPANY

June 11, 2002

OLYMPIC PIPE LINE COMPANY

REBUTTAL TESTIMONY OF LARRY PECK

I. Name and Qualifications

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

A. My name is Larry Peck, I am the General Manager of the Products Business Line for BP Pipelines (North America) Inc. I also serve the role of Chairman of the Board of Directors of Olympic Pipe Line Company, since April 24, 2001. My business address is 801 Warrenville Road, Suite 700, Lisle, IL 60532.

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

A. No.

II. Summary of Testimony

Q. Please summarize your testimony.

A. I have reviewed Staff and Intervenors' testimony and I am disappointed with their positions. If the recommendations in their testimony are accepted by the Washington Utilities and Transportation Commission, I believe there is a high probability that Olympic will not be able to obtain significant new loans from either BP, which has been the only source of new capital for Olympic since June of 2000, or from any other lender. Without new tariff revenues and without new loans, Olympic will not be able to initiate many new capital projects, including the

1 remaining capital projects in the 2002 capital project budget. Over the next three
2 years, Olympic needs about \$66 million for capital projects, and I know of no way
3 to fund that amount if Staff and Intervenors' recommendations are accepted.

4 Staff and Intervenors have criticized Olympic for not notifying the Commission of
5 the shareholder loans and for not tracking expenses made from each individual loan.
6 Many of these loans predate BP's role as operator of Olympic. We know, however,
7 that at least \$36 million of the \$52 million loaned by BP/ARCO went for capital
8 projects, because without those loans, capital projects initiated since June of 2000
9 would not have been possible. We also know that the remaining amounts loaned by
10 BP/ARCO have gone to help make up the lost tariff revenues from reduced
11 throughput and the significantly increased operating expenses required to meet new
12 federal, state and local regulations.

13 Staff and Intervenors somehow assume that Olympic's owners will "make a capital
14 infusion" to provide an "equity cushion" in the event of a future disruption to pipeline
15 throughput. This assumption is misplaced. I believe it is unlikely that additional
16 capital would be placed at risk without a tariff increase. If Staff's and Intervenors'
17 recommendations were adopted, I could not recommend that BP/ARCO make
18 further loans to Olympic, as it would be unlikely that the loans could be repaid.

19 Although Staff describes the risk of future disruptions to throughput, their solution
20 is to expect investors to place additional equity at risk to provide a cushion in that
21 event. But equity placed at risk must be compensated with a rate of return
22 commensurate with that risk. The capital structure and rate of return on equity
23 recommended by Staff do not account for real world decision making. The real rate
24 of return expected by large oil companies like Olympic's owners, and most of its

1 shippers, is in excess of 15%, far above the modest 7% which BP/ARCO and Shell
2 are charging for their loans--interest that to date is not being paid.

3 In summary, the recommendations of Staff and Intervenors will have adverse
4 consequences if adopted. One immediate consequence will be that there is no
5 apparent source of capital to fund the \$66 million we believe is needed for projects
6 over the next three years to complete the work that regulators are expecting of
7 Olympic to meet the highest safety standards. Without adequate funding, new capital
8 projects could not be initiated. Olympic will then need to return to its safety and
9 environmental regulators, the DOT-OPS, DOE, and WUTC, to obtain guidance on
10 which safety and environmental projects should not be funded.

11 **III. The Consequence of Staff and Intervenors' Recommendations**

12 **Q. If the recommendations of Staff and Intervenors are followed, will Olympic be**
13 **able to obtain any new loans from BP/ARCO?**

14 A. The authority delegated to me to commit BP/ARCO to make loans to Olympic has
15 already been exhausted. If Staff and Intervenors' recommendations are accepted, I
16 cannot recommend any significant further investment of loans, let alone of equity,
17 by BP in Olympic Pipe Line, since the likelihood of any return will be remote.

18 I view the recommendations of Staff and Intervenors to be in conflict with the
19 demands of safety regulators, elected officials, and interested members of the
20 public, in having the safest possible pipeline serving the needs of the State of
21 Washington. BP/ARCO as a shareholder has made loans to Olympic in good faith,
22 with safety as our first priority. But ultimately, we must also answer to shareholders
23 for the returns they necessarily expect to receive on their investments. It will be
24 difficult to justify any further investment in Olympic if there is no realistic chance

1 of obtaining a return, which would be the case if a significant tariff increase is not
2 approved.

3 **Q. What consequence will follow if tariff revenues are not increased and if**
4 **BP/ARCO will not loan further funds to Olympic?**

5 A. Olympic's President has requested Bobby Talley to prepare a report on that question,
6 but the consequences are clear even without such a report. Without additional
7 revenues, there will be no funds available to initiate additional capital improvement
8 projects for the remainder of 2002 and into the future. With the recommendation by
9 Intervenors of no increase in both the FERC and WUTC proceedings, there will be a
10 potential refund liability of approximately \$17 million (approximately \$14 million
11 at the FERC and \$3 million at the WUTC) by September of 2002. That refund
12 liability itself exceeds all available funds that could be used for safety-related and
13 other capital improvement projects.

14 As Howard Fox will testify in further detail, Olympic is already doing what it can to
15 conserve cash. It has not paid dividends since 1997. With the exception of small
16 required payments to Prudential, it has not paid down the principal on any of the debt
17 it owes. And it has not paid interest on shareholder loans to Olympic since BP
18 Pipelines took over as Olympic's operator. Given the requirements of operating the
19 pipeline in the way that BP, regulators, elected officials, and the public demand,
20 there is little opportunity to decrease operating expenses substantially. Likewise,
21 the capital projects that Olympic has planned for 2002 and beyond are only those
22 required to meet the demands for improvements in the pipeline and its operation.

23 **Q. Does this conclude your present testimony?**

24 A. Yes.

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