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June 17, 2002

VIA FACSIMILE AND OVERNIGHT MAIL

Carole J. Washburn
Office of the Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

**Re: Olympic Pipe Line Company
Docket No. TO-011472**

Dear Ms. Washburn:

We hereby submit this original and and nineteen (19) copies of Olympic Pipe Line Company's substituted rebuttal testimony for Bob C. Batch in support of Olympic Pipe Line Company in the above-referenced proceeding.

Very truly yours,



William R. Maurer

WRM:wrm
Enclosures

cc: The Honorable Robert Wallis (w/att.)
Service List (w/att.)

[33202-0006/BA021650.072]

6/17/02

Exhibit No. _____ (BCB-32T)

Docket No. TO-011472

Witness: Bob Batch

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

SUBSTITUTED REBUTTAL TESTIMONY OF
BOB BATCH

OLYMPIC PIPE LINE COMPANY

June 11, 2002

Exhibit No. ____ (BCB-32T)

OLYMPIC PIPE LINE COMPANY

REBUTTAL TESTIMONY OF BOB BATCH

I. Name and Qualifications

Q. Please state your name, business address, and position with Olympic Pipe Line Company.

A. My name is Bob Batch. I am employed by BP Pipelines (North America), Inc. ("BP Pipelines"), and I am President of the Olympic Pipe Line Company ("Olympic"). My business address is 2201 Lind Ave. S.W., Suite 270, Renton, WA 98055.

II. Educational and Professional Qualifications

Q. Please describe your educational and professional qualifications.

A. My direct testimony contains my educational and professional qualifications. Exhibit No. T-____ (BCB-1T). See also my rebuttal testimony in the interim rate portion of this proceeding, Exhibit No. ____ (BCB-22T).

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

A. Yes, my initial testimony in support of Olympic's request for interim relief is Exhibit No. _____ (BCB-1T) and my supplemental testimony in support of

Olympic's request for interim relief is Exhibit No. ____ (BCB-5T) and my rebuttal testimony in the interim case is Exhibit No. ____ (BCB-22T).

III. Introduction of Testimony

Q. Please introduce your testimony.

A. Interveners and Staff have commented on Olympic's responses to data requests and the discovery process in general. Those of us working at Olympic found the process to be as frustrating as any of the other parties. When BP Pipelines took over operation of Olympic's system in July 2000, we felt we could have received more cooperation and assistance from the prior operator, Equilon. Staff noted some of the difficulties BP Pipelines' faced on July 1, 2000, which included incomplete or missing accounting records, computer data and other corporate information, etc. Exhibit No. __ (RGC-1T) at 7.

Since BP Pipelines became Olympic's operator it has focused its energies and is still focusing its priorities on ensuring that the pipeline system is operating safely with the confidence and support of the communities through which the pipeline passes. This was the most important challenge we faced. No party to this proceeding has had anything negative to say about BP Pipeline's operational abilities and its focus on safety. BP/ARCO loaned Olympic \$53 million starting in June of 2000, and that at least \$36 million was used for new capital spending. This also allowed Olympic to bring all segments of the system to full operating capability and to implement the higher level of O&M costs necessitated by new federal regulations and other requirements.

As I said at the outset, our team of 75 dedicated people has worked efficiently and hard with a focus on safety. When we filed rate cases at the FERC and at the WUTC last year to increase rates to cover the dramatic decline in throughput and increased capital and O&M costs, we underestimated the challenge of responding to two proceedings on rates and the strong opposition from two of Olympic's shippers. We did not anticipate the hundreds of hours of our staff's time spent responding to hundreds of data requests with deadlines as short as three days. Many of the data requests dealt with issues and information that predated BP Pipelines' involvement with Olympic, a fact that increased the difficulty in providing responses. Although we urgently needed the revenues from increased tariffs, our focus and priorities had to be on the safe and reliable operation of the system.

While increased revenue is obviously the primary reason for the current filing, we see this request for a rate increase as a request for a vote of confidence and support by the State of Washington that BP Pipelines is acting in public's interest, which is clearly pipeline safety.

Everyone agrees that this is a unique case arising from unique circumstances in a unique industry with a unique regulatory history. The Commission has discretion to make choices in light of those unique circumstances.

I am concerned that the focus on methodology, accounting and discovery disputes will lead us to forget the big picture. The big picture is that this state needs this pipeline to be financially stable. It is in the public interest for this pipeline to be brought back to full operation in a fashion and within a time

frame that does not compromise safety. BP Pipelines, with BP/ARCO financing, stepped up to the plate and is making the best effort possible to bring the pipeline back to full operation with safety remaining the number one priority. We still have a lot of work to do, and would very much like to continue the effort. Those who now know us in the local communities understand that BP Pipelines is the kind of operator that they can rely on to make safety a priority. To me, this is the public interest.

IV. Summary of Testimony

Q. Please summarize your testimony

A. First, I discuss the consequences of the recommendations of Staff and Intervenors. I requested Bobby Talley to report to me on what capital projects we would have to cut if we could not obtain additional tariff revenues or additional loans from BP/ARCO or any other source. The answer was that virtually all of the \$66 million in capital projects scheduled and anticipated for the next three years could not be funded and therefore would have to be postponed pending a further rate proceeding. As a result, Olympic could be subject to additional operating restrictions. As Larry Peck testifies, the lack of funding to complete this work would mean that we need to make cuts in our capital budget in consultation with regulators and elected officials.

Next, I specifically comment on the testimony of Tesoro's witness, John Brown, regarding BP Pipelines and Olympic.

V. The Consequence of Staff and Intervenors Recommendations on Olympic's Capital Budget and Operations

Q. What will be the consequence of Staff and Intervenor's recommendations on Olympic's capital budgets for the next three years and its operations?

A. Larry Peck, Howard Fox and Bobby Talley testify regarding the financial and operational consequences of Staff and Intervenors recommendations. I had requested Bobby Talley to report to me on what capital projects we would have to cut if we could not obtain additional tariff revenues or additional loans from BP/ARCO or any other source. Bobby Talley's response was to prepare a spreadsheet showing the next three years of planned capital expenditures, (which is an exhibit attached to his testimony). He reported orally that virtually all of those capital projects which total \$66 million would have to be cut. As a result of those cuts, he and I have also discussed whether Olympic would be potentially subject to additional operating restrictions beyond the 80% pressure limitations. The answer is we do not know, but we would have to consult with OPS and other regulators as Larry Peck testifies.

Q. Are there priorities in the planned capital expenditures that you have discussed?

A. Yes. During the interim case I noted in my testimony that there was one area of capital spending that could possibly be deferred. That area was where the expenditures associated with being able to bring the pipeline up to 100% operating pressure. I said in the interim case that "if Olympic is not able to attract sufficient capital on reasonable terms, Olympic would be forced to defer

those expenditures associated with being able to bring the pipeline up to 100% operating pressure." I said that those costs could be categorized as "not essential," but that the failure to make those expenditures would not be in the interest of the public or Olympic' shippers. Exhibit No. _____ (BCB-___)

Q. Would deferral of those expenditures require additional consultations with the Office of Pipeline Safety and Others?

A. Yes. As Bobby Talley can explain in more detail, once TFI runs are performed, data evaluated, and repairs and replacements are identified, it is then required that repairs be made within a certain number of days. If repairs cannot be made within that timeframe, then that raises additional questions as to what possible-potential future restrictions or other conditions would be required. In short, it would create a high degree of uncertainty about what Olympic should do and how it should do it. As Larry Peck testifies, we would have to work in close consultation with various regulatory agencies, public officials and communities to determine what course to follow.

VI. Response to Tesoro's Witness, John Brown

Q. Please respond to Tesoro's witness, John Brown, regarding when BP Pipelines became the operator of Olympic and whether to allow BP Pipelines a management fee.

A. Mr. Brown incorrectly said BP Pipelines became the operator of Olympic after BP acquired majority ownership in Olympic. Exhibit No. __ (JFB-1T) 5, 16-17. But, as I testified in my direct testimony, BP Pipelines was awarded the

operatorship of Olympic after a competitive bid process in June of 2000. BP did not acquire a majority ownership in Olympic until September of 2000:

In June 2000, BP Pipelines (North America), Inc. was selected by Olympic's Board of Directors to operate the pipeline at the conclusion of a competitive bid process.

In July 2000, BP Pipelines began to operate Olympic. In September 2000, BP purchased the GATX shares and became the majority shareholder of Olympic. Today, BP owns 62.55% of Olympic with Equilon owning 37.45% of the shares.

Mr. Brown's conclusions based on the incorrect assumptions stated above should be disregarded.

Mr. Brown then states that Olympic did not obtain approval of the management contract from the WUTC, and he makes a legal argument. While I leave the legal issues to others, I will respond by saying that by its actions and priorities BP Pipelines has made significant progress to restore community and public confidence in the ability of the pipeline to be operated in a safe and reliable manner.

My earlier exhibit, Exhibit No. __ (BCB-3), discussed the turnaround in public confidence brought about by BP. I have updated that exhibit (Exhibit No. ____ (BCB- 33)). No party to this proceeding has contested that fact. That fact, perhaps more than any other, is the reason Olympic continues to be able to operate today. We have worked closely with public officials, whose leadership on pipeline safety is essential to public confidence in the pipelines here and across the United States. Our Congressional leaders, who have made pipeline safety a priority, and who have worked on national standards for pipeline safety, have praised Olympic's new management. Copies of some of those

letters to me are collected in my Exhibit No. ____ (BCB-____). A recent ~~editorial in the Bellingham Herald summarizes the turn around in public confidence:~~

~~—— It's worth noting, too, that since BP Amoco took over the pipeline and reopened it in February 2001, it hasn't had a spill. After the June 10, 1999, explosion, Olympic continued to spill fuel in the parts of the line that remained open.~~

~~—— BP has said Olympic was poorly operated and managed. It has said it needs to make changes. We shouldn't be surprised when that costs money.~~

~~—— Exhibit No. ____ (DMC-2).~~

- Q. Mr. Brown criticizes Olympic for not increasing maximum operating pressure quickly?**
- A.** Mr. Brown incorrectly states that Olympic is not doing all it can to restore 100% maximum operational pressure. We are working closely with the Federal Office of Pipeline Safety to address all issues relating to the extensive repairs and inspections required. We are also working with federal, state and local officials to get the permits necessary to conduct the work required of Olympic to achieve 100% operating pressure. Unfortunately, the permitting process in Washington is a very slow process, in some cases requiring years to complete before construction can proceed. Bobby Talley provides additional details on this process. We also are ensuring that the effort to achieve 100% operating pressure is done in a fashion that does not compromise safety. As stated previously, the system-wide limitation that OPS placed on Olympic's operating pressure occurred only after a seam failure during the hydro test in

pipe that is known for manufacturing defects in the long seam in the pipe. While this type of pipe was not involved in the Whatcom Creek accident, Olympic's system does have this type of pipe in many other areas, notably at various river crossings.

Q. Mr. Brown states that Olympic has abandoned the Cross Cascades Project. How do you respond?

A. He is incorrect. As I testified previously, Cross Cascades has been delayed, not abandoned.

Q. Mr. Brown said Olympic is working on other projects that he implies are not necessary.

A. Because Mr. Brown is not specific, it is difficult to respond. The only project I heard Mr. Brown specifically criticize was during the interim rate case hearing where he suggested that Olympic did not need to do boring under rivers or in landslide areas. His theory, apparently, ~~was~~ that earthquakes and landslides in Western Washington are not a sufficient risk to justify capital being spent on projects to reduce that risk before it is spent on projects designed to get the pipeline running at 100% maximum operating pressure. ~~He said the following:~~

~~Some of these capital expenditures, if you look at the projects that are included, include boring under a river to put a pipeline there and to avoid the possibility that an earthquake or a landslide will occur. You know, that may be something that ought to be done from a safety standpoint, but I certainly don't believe that it's something that is going to affect the outcome of this case. You're not dealing with 2002 capital expenditures.~~

~~Tr. at 1174.~~

Q. Do you agree with Mr. Brown?

A. No. Mr. Brown, who is not an engineer and who has no experience in pipeline operations, is wrong. Protecting against earthquake and landslide damage is an important safety issue as far as BP Pipelines is concerned. As you know, just last year we experienced a significant earthquake in Western Washington that triggered some landslides in the vicinity of Olympic's pipeline. Even Mr. Brown admits in his testimony that projects designed to mitigate against the impact of an earthquake might "be done from a safety standpoint . . ." ~~Tr. at 1174. Although Mr. Brown does not appear to consider this to be a risk, we do.~~ However, Mr. Brown's apparent philosophy on the priority of safety related projects is not consistent with BP Pipelines' philosophy.

Q. Does this conclude your present testimony?

A. Yes.

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