

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

OLYMPIC PIPE LINE COMPANY, LLC,
TESORO REFINING & MARKETING
COMPANY, LLC, AND PHILLIPS 66
COMPANY

For an Order Approving Terms of a
Settlement Agreement Amendment Between
Olympic Pipe Line Company LLC, Tesoro
Refining & Marketing Company LLC, and
Phillips 66 Company

Docket No.

**PETITION OF OLYMPIC PIPE LINE
COMPANY, LLC FOR APPROVAL OF
AMENDMENT NO. 8 TO TARIFF
SETTLEMENT AGREEMENT OF 2003**

IDENTITY OF PETITIONER

1. Petitioner is Olympic Pipe Line Company, LLC (“Olympic”). Olympic is engaged in the business of transporting petroleum products within and beyond the State of Washington as a common carrier. Movant’s name and address are shown below. Please direct all correspondence related to this Motion as follows:

For Olympic Pipe Line Company (“Olympic”)

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OLYMPIC’S PETITION FOR APPROVAL
OF AMENDMENT NO. 8 TO TARRIFF
SETTELEMENT AGREEMENT OF 2003 - 1

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For Tesoro Refining & Marketing Company LLC (“TRMC”)¹

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Attn: Geri Ewing, Director of Light Products Scheduling

For Phillips 66 Company (“Phillips 66”)²

Phillips 66 Company
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Attn: Manager, Clean Products Business Development

RELEVANT STATUTES AND REGULATIONS

1. This Petition is based upon, or may bring into issue, the following statutes and rules: RCW 81.04.130, RCW 81.04.250, RCW 81.28.010, RCW 81.28.050, WAC 480-07-305, WAC 480-07-370, WAC 480-07-510, and WAC 480-73- 050.

RELIEF REQUESTED

2. Olympic respectfully petitions the Washington Utilities and Transportation Commission (the “Commission”) for an order approving Amendment No. 8 (the “Amended and Restated Settlement Agreement”) to the Parties Tariff Settlement Agreement of 2003

¹ TRMC is the successor to Tesoro Refining and Marketing Company (“Tesoro”).

² Phillips 66 is the successor to Conoco Phillips Company (“Conoco Phillips”), which in turn was a successor by merger to Tosco Corporation (“Tosco”).

(“Agreement”) initially entered into by the Parties’ predecessors in 2003, and then approved by the Commission on December 23, 2003. The Agreement was last amended (“Amendment 7”) on or about September 22, 2008 and later that year approved by the Commission. The Amended and Restated Settlement Agreement is in the public interest and should be approved by this Commission. A true and correct copy of Amended and Restated Settlement Agreement is attached hereto as Exhibit A. A redline showing the changes to Amendment 7 is attached as Exhibit B.

BACKGROUND AND EXPLANATORY STATEMENT

3. Olympic is a common carrier pipeline that transports petroleum products both within and outside the State of Washington. The predecessors of Parties entered into the Agreement on November 7, 2003. The Agreement arose from a series of events that included: (a) a contested proceeding before the Commission in 2002 that resulted in a Final Order lowering certain intrastate rates that had been allowed on an interim basis and calling for refunds to shippers; (b) Olympic’s filing for reorganization under Chapter 11 of the United States Bankruptcy Code on March 27, 2003; and (c) other, related proceedings.

4. The Parties entered into the Agreement in order to end years of contentious litigation in multiple forums and to provide a framework for stable and consistent rate regulation of Olympic by allowing Olympic’s rate to be readily adjusted as Olympic’s throughput varies, as Olympic’s investment increases, or as Olympic’s project and operating costs vary.

5. The Commission approved the Agreement on December 23, 2003, by its Order Granting Relief Requested in Joint Petition; Approving Settlement Agreement.

6. Under the terms of the Agreement, any Party could terminate the Agreement effective December 29, 2008, by giving the prescribed advance notice. Thereafter, the Parties entered into six extension amendments of the Agreement, all of which were adjustments to the notice period while negotiating Amendment 7. In 2008, the Parties entered into Amendment 7, which, as noted, was approved by the Commission in 2008.

7. Amendment 7 to the Agreement has been in effect since January 2009. Nonetheless, in response to shipper requests, the Parties have, over the last several months, explored various ways to minimize the cyclical variation of Olympic's tariff rates, and have negotiated the proposed revision to the Rate Adjustment Factor used to adjust Olympic's annual tariff rates. The Amended and Restated Settlement Agreement (Amendment 8 to the Agreement), attached hereto as Exhibit A, is the result of the Parties' negotiations over the last seven months, and reflects the Parties' (and Olympic's other customers') experience over more than a decade with the Agreement's rate-setting methodology.

8. Subject to approval by the Commission,³ the Amended and Restated Settlement Agreement provides for two primary modifications: 1) a revision to the rate-setting methodology used to determine future rates during the term of the Amended and Restated Settlement Agreement; and 2) a new five-year term ending December 31, 2024.⁴

9. Under the Amended and Restated Settlement Agreement, as was the case under Amendment 7, Olympic's future rates during the term will vary based on Olympic's actual costs and throughput. Pursuant to Section 3.14(a), Olympic's tariff rates changed, based on the "Rate Adjustment Factor" ("RAF"), which is defined in the Amendment 7. The RAF has varied significantly from year to year since its implementation. As an example since 2012, at its highest, the RAF was 25% and at its lowest, it was -22%. As a result of these significant variances in the RAF, resulting in large fluctuations in annual tariff rate changes, shippers have had difficulty with forecasting and budgets and requested that Olympic consider how to moderate such swings. Under the Amended Settlement Agreement, the RAF is determined by dividing the Total Revenue

³ See Amended and Restated Settlement Agreement at Section 4.3(a).

⁴ The term of the Amended and Restated Settlement Agreement is actually more than five years, assuming approval by May 28, 2019. However, for ease of reference it is referred to herein as a five-year term. The Parties' agreement to a five-year term also is a result of extensive discussions. Amendment 7 of the Settlement Agreement has been renewed annually since 2013.

Requirement by the Actual Tariff Revenue through the end of the prior calendar year. In the Amended and Restated Settlement Agreement, the Parties propose to amend the RAF definition by replacing the denominator, currently Actual Tariff Revenue for the calendar year, with a calculated number. Specifically, the RAF is proposed to be determined by: dividing the Total Revenue Requirement by the product of the (i) preceding year actual volumes; and (ii) Weighted Average Rate at the time of the Annual Tariff Filing of the preceding year. The Weighted Average Rate equals the Tariff Revenue from July-December of the preceding year divided by the volumes from July-December of the preceding year, multiplied by the proportional adjustment utilized in calculating any Interim Rates between the end of the preceding calendar year and the Annual Tariff Filing. With these proposed revisions to the RAF, the magnitude of the annual tariff changes would have been reduced by approximately half for the period 2012-2018, significantly reducing the variances which create difficulty for shippers (as well as Olympic). This change to the rate-setting methodology is accomplished in the Amended and Restated Settlement Agreement by revising Section 3.14(a). With respect to Section 3.14(a)(ii), the phrase “forecasted Tariff Revenue” will be changed to the newly defined term “Forecasted Tariff Revenue;” and “Forecasted Tariff Revenue” will be defined as a calculated number determined as stated in Section 3.14(a)(ii).

10. As noted above, the Amended and Restated Settlement Agreement provides for a new five-year term which is set forth in Section 4.1(b) and the related revision in 4.3(a) regarding approval and termination of the agreement.

11. In addition to the revisions to the rate-setting methodology and term, the Parties propose a few additional amendments that are related to the two revisions, clarify, or update various provisions of Amendment 7 as follows:

- a. revise Section 1.3(c) with respect to the timing for filing dates and effective dates for interim tariff rates;

- b. revise Section 1.3(c) to clarify the limitations on filings by shippers apply only to those that contest effectiveness of rate filings seeking to change Olympic's transportation rates under the Amended and Restated Settlement Agreement;
- c. various changes reflecting the prior removal of certain Bayview facilities from rate base;
- d. delete outdated provisions (*e.g.*, Section 3.8(c), Section 4.1(c), Section 4.13, Section 3.10 (last sentence), and Section 3.9(c)) or update provisions (*e.g.*, Section 4.9 and references from "the original TSA" to "this Amended TSA" have been updated, as necessary);
- e. correct typographical errors (*e.g.*, "IDC," which is a typographical error, and has been deleted and "Debt AFUDC" inserted instead and Section 3.14(a)(iii) has been deleted because it is identical to the first sentence in Section 3.14(a)(ii));
- f. add a reference in Section 4.4 to the "Current TSA" to be clear that it does not have precedential effect; and
- g. update contact information and other information regarding the Parties resulting from reorganizations or acquisitions.

12. Except for these proposed changes, the methodology of the Amended and Restated Settlement Agreement parallels that of Amendment 7. A "redline" comparing the language of Amendment 7 to the Amended and Restated Settlement Agreement is attached as Exhibit B. A redline *pro forma* tariff comparing the *pro forma* tariff to the tariff currently on file for Olympic is attached as Exhibit C.

13. Nothing in the Amended and Restated Settlement Agreement is intended to supplant or affect the authority of the Commission to review and approve or disapprove rates.

14. Except for the listed changes, the methodology of the Amended and Restated Settlement Agreement parallels that of Amendment 7, under which the Parties have been operating

since January 2009. The best argument in favor of approval of the Amended and Restated Settlement Agreement is that this method has worked well, and that the Parties' experience working with the Agreement has enabled them to tweak and improve upon the Agreement's methodology. The Amended and Restated Settlement Agreement, like its predecessors, provides a rational methodology for the continued economic regulation of Olympic based upon agreed criteria that enable Olympic's shippers to understand and to predict the transportation costs associated with transporting their refined products to the marketplace.

15. Olympic's facilities perform a vital function. It is important for Olympic's rates to be set in a manner that is fair, efficient, and predictable, and that results in rates that yield a fair return and provide the funding necessary to assure safe, efficient operation. Amendment 7 has largely produced these results, and based on the Parties' experience under the Agreement, there is every reason to anticipate that the Amended and Restated Settlement Agreement will provide even better results.

PRAYER FOR RELIEF

16. Petitioner respectfully requests that the Commission issue an order prior to May 28, 2019 approving the Amended and Restated Settlement Agreement, including its methodology for preparing future rate filings.

DATED this 21st day of April, 2019.

Respectfully submitted,

OLYMPIC PIPE LINE COMPANY, LLC



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