

## TABLE OF CONTENTS

I.	Introduction.....	1
II.	Legal Standards and Governing Principles .....	2
A.	Burden of Proof.....	2
B.	Fair, Just, Reasonable, and Sufficient Rates .....	2
i.	General Considerations .....	2
ii.	End Result Test .....	3
iii.	Public Interest Standard.....	3
a.	Effect of Rate on the General Public .....	4
b.	Effect of Rate on Ratepayers.....	4
c.	Effect of Rate on the Regulated Company .....	5
iv.	Commission’s Dual Role.....	6
C.	Federal/State Jurisdictional Legal Issues .....	7
D.	Retroactive Ratemaking.....	7
III.	Status of Company Books and Records.....	8
IV.	Ratemaking Methodology .....	12
A.	Investor Expectations; Right to Methodology.....	12
B.	FERC Methodology .....	14
i.	Nature of Oil Pipelines and History of Regulation.....	14
ii.	Rationale for FERC Methodology .....	15
1.	Potential for Underinvestment.....	16
iii.	Elements of FERC Methodology.....	16
1.	Trended Original Cost .....	16

	2.	Starting Rate Base.....	17
	3.	Deferred Return.....	18
	4.	Parents' Capital Structure.....	18
	5.	Cost of Equity.....	18
	iv.	Commission Discretion in Choosing Methodology.....	19
	1.	Consistency with Interstate Rates.....	19
	2.	Past Practices.....	20
	C.	DOC Methodology.....	20
V.		Test Year and Jurisdictional Separations.....	20
	A.	Definition of "Test Year".....	20
	B.	Test Year in this Proceeding.....	21
	C.	Jurisdictional Separations.....	22
VI.		Operating Expenses.....	22
	A.	Results Per Books.....	22
	B.	Whatcom Creek Expenses.....	23
	C.	Restating and Pro forma Adjustments.....	23
	i.	WUTC Staff Adjustments.....	24
	a.	Interpretation of Accounting Standards for Capitalization.....	24
	b.	Non-Recurring Expenses.....	25
	c.	Disallowance of Expense.....	26
	ii.	Intervenors's Adjustments.....	27
	D.	One Time Maintenance Costs.....	31
	E.	Major Maintenance Costs.....	32

F.	Regulatory Costs .....	33
G.	Transitional Costs .....	34
H.	Fuel and Power Costs .....	34
I.	Federal Income Taxes .....	34
J.	Other .....	35
	i. Depreciation.....	35
	ii. Summary of OPL’s Operating Expenses .....	36
VII.	Rate Base.....	37
	A. Rate Base Methodology .....	37
	B. Starting Rate Base Calculation.....	37
	C. Deferred Return (Calculation) .....	38
	D. Bayview.....	38
	E. Average v. End-of-Period.....	41
	F. CWIP .....	41
	G. AFUDC.....	41
VIII.	Capital Structure.....	41
	A. Actual Capital Structure.....	41
	B. Hypothetical Capital Structure.....	45
	i. Historical Capital Structure .....	45
	ii. Use of Parents’ Capital Structure (Excluding FERC Rationale).....	46
IX.	Rate of Return.....	52
	A. Cost of Debt .....	52
	B. Return on Equity.....	54

	i.	General Principles.....	54
	ii.	Application of DCF Methodology.....	56
	C.	Overall Cost of Capital.....	58
X.		Revenues.....	58
	A.	Test Year Revenues.....	59
	B.	Throughput.....	59
	i.	Role of Throughput in Determining Revenues.....	59
	ii.	Calculation of Appropriate Throughput for Ratemaking Purposes.....	59
	iii.	Adjustment Mechanism Based on Throughput.....	62
XI.		Calculation of Revenue Deficiency or Surplus.....	62
	A.	Explanation of Phrase “Revenue Deficiency”.....	62
	B.	Summary of OPL Rate Year Cost of Service.....	62
	C.	Summary of OPL Rate Year Revenues.....	63
	D.	Calculation of Revenue Deficiency and Corresponding Rate Increase.....	63
XII.		Refunds, if the revenue deficiency fails to require a rate increase of at least the level of interim rates.....	64
	A.	Broad Discretion of the Commission.....	64
	B.	Refund Of Interim Rates Is Not Appropriate.....	65
XIII.		Other.....	66
XIV.		Conclusion.....	67