Rebuttal of Whitelaw Testimony by James R Jones

Submitted March 22, 1999

Q. What is your name and occupation?

A. My name is James R. Jones. I am a Professor of Marketing Economics in the Department of Agricultural Economics and Rural Sociology at the University of Idaho.

Q. What is your Educational and Employment Background?

A. I received a Bachelor of Arts in Economics from Southwest Missouri State University in 1964, a Masters of Science in Economics from Oklahoma State University in 1967, and a Doctorate of Philosophy in Economics from the University of Arkansas in 1976. I have been teaching courses at the undergraduate and graduate levels in price theory (microeconomics), agricultural price analysis and a number of other areas since 1965. My research specialization has focused on the economics of agricultural trade, marketing, and transportation issues. My curriculum vita is attached in exhibit A. Of about 90 published articles, book chapters, research reports and miscellaneous papers, several of these (boldfaced in the vita) have involved transportation issues. Several of these papers relate specifically to waterborne transportation on the Columbia Snake navigation system.

Q. What areas do you address in your testimony?

A. I have been asked to respond to Dr. Ed Whitelaw's testimony claiming that the Cross Cascade Pipeline project would increase the cost of transporting grain on the Columbia Snake Navigation System. In my rebuttal of Dr. Whitelaw's testimony I will also respond to the testimony regarding the proposed pipeline's impact on barge transportation of grain products.

Q. Would you summarize your testimony?

A. In his testimony Dr. Whitelaw has implied that cost savings from barge shipments of petroleum up the river result in lower costs of shipping grain down the river and the proposed pipeline could increase the cost of transporting grain on the Columbia Snake river. I will show there is no logical reason that grain transportation costs would go up as a consequence of construction of the Cross Cascade pipeline project. Entry of a competitor into a market pressures existing firms to *lower* prices for their services rather than increase them.

Dr Whitelaw suggests several reasons why Tidewater's situation when it faces competition would be an exception. I will show that none of these hold up to economic principles of price determination and the reality of the grain barge industry on the Columbia Snake River navigation system. Economists usually disagree because they argue from different premises. Actually Dr. Whitelaw and I start from the same

premise in this case. Our common starting premise is that with the construction of the Cross Cascade Pipeline, the petroleum from Puget Sound refineries shipped to Eastern and Central Washington by the pipeline will "replace barge transportation of petroleum to Pasco" (Whitelaw testimony, p. 15, line 6). Much of the apparent confusion it will be seen is created from vague definitions and errors in use of economic logic. For example Dr. Whitelaw implies the concept of back haul cost savings in his testimony. However Tidewater uses separate barges to move petroleum and grain. Petroleum going up the river and grain going down the river does not lead to cost savings if the tug has to move each barge one way empty. Petroleum competes with grain. When petroleum is replaced, grain transportation prices are under pressure to go down, not up, because grain shippers are competing with petroleum for space on barge tows.

I will explain how Dr. Whitelaw also confuses the issue of Tidewater's sunk or fixed costs with the price it is able to charge for grain transportation. Then he tosses out a proposition that the frequency of service would be reduced to the grain industry. I will note the fact that any time petroleum is not coming up the river in barges, more tow space is available to haul grain, effectively increasing the possible frequency of service. This would particularly be the case during a period of high demand for grain and petroleum transportation services. Tidewater would also have more incentive to offer service to grain and other cargo shippers on the river in the face of pipeline competition.

I will refute Dr. Whitelaw's argument that past transportation rate stability on the river will be destroyed by Tidewater leading an increase in prices because of its dominant

position in transportation on the river. Rational firms, even firms that dominate a given industry, cannot raise prices without considering the effect of their competition taking away their business if they do so.

By using concepts vaguely Dr. Whitelaw ends up endorsing a position which turns economic logic on its head and argues that competition from an additional supplier will increase the price of a service. Tidewater in fact opposes the construction of the pipeline because they would lose their current monopoly position in the carriage of petroleum to eastern and central Washington. Denying Tidewater this continued monopoly would not enable Tidewater to raise transportation costs on other shippers, including grain shippers. When a firm, even a monopolist, loses business to an entering competitor, it is not rational to increase prices because this will cost it additional business.

Finally I explain why I think Tidewater will continue to have a competitive advantage that will enable it to continue to serve the grain trade if the Cross Cascade pipeline is constructed. While I will point out several reasons for believing this, the most obvious is that the other carriers that transport grain on the river do not now carry petroleum so it is difficult to argue that Tidewater's grain service is contingent upon the existence of its petroleum business.

Barge carriers in the past argued the case for navigation improvements on the Columbia/Snake river system on the grounds that their services would offer a healthy

option to motivate other carriers to stay competitive. Adding the Cross Cascade pipeline option offers an additional competitive option to counteract Tidewater's current monopoly position in handling petroleum on the river. Transportation savings and thus lower fuel costs from the pipeline could be passed on to fuel users in the region east of the Cascades. Agricultural producers in Eastern and Central Washington are intensive consumers of energy in addition to the other energy consumers in the region. Entry of an alternative transportation option, namely the pipeline, could benefit them by lowering their production and harvesting costs. Simultaneously an alternative source of transportation for fuel products would be available if water transportation should be restricted or terminated in the future.

Q. Do you agree with Dr. Whitelaw's assertion that the proposed Cross Cascade Pipeline would result in higher prices for transporting grain on the Columbia Snake river? (Ed Whitelaw, pre filed testimony, Feb 12, 1999; see p. 4, lines 3 -14; p. 19, lines 5 - 10.).

A. No. The competition of the pipeline might result in grain transportation rates falling, but economic logic would not support an argument that they would increase. I teach a course in agricultural price analysis that incorporates transportation into price determination and discovery. Transportation costs are a price paid to carriers for their services. Tidewater obviously has some control over the price it charges for transportation services, but even a monopolist has to respond to market forces. Economic logic is that rates for hauling grain would be under competitive pressure to

fall – not increase - with the advent of pipeline transportation. When a new business comes to town, of course other competing businesses may be impacted by lost business, but competitive pressures would require that they lower prices, not raise prices to their customers. If there is only one major discount store in a community and a new Wall Mart store comes on the scene, the previous monopolist can not offset the effect of lost business to Wall Mart by raising prices to its customers. If it does anything it will probably have to lower its prices. The same applies in a market environment where tow boat operators face competition from new sources.

Q. What is being ignored in Dr. Whitelaw's agrument?

A. The competitive pressure of petroleum barges competing for space in barge tows with grain barges exerts upward demand pressure on grain shipping rates. As petroleum shipments are diverted to pipeline rather than carried in barges on the river this is a factor that potentially can favor grain shippers. Prices charged to shippers by carriers for transportation services are determined by demand and supply conditions. Tidewater who carries petroleum products would witness the demand for their service decline by the amount of cargo diverted to the pipeline. Shippers of agricultural products would find themselves in an improved competitive position in bargaining with Tidewater since the latter would be operating under greater competitive pressure to attract grain to fill barges and utilize tow space previously filled by petroleum cargo.

Q. How does Dr. Whitelaw arrive at his conclusion that grain transportation rates will increase if the proposed pipeline is built?

A. Dr. Whitelaw argues that grain farmers will experience an increase in grain transportation costs by bringing in four issues: back haul (Whitelaw Pre-filed Testimony; p. 4, line 6 and p.19. line 7); recovery of sunk costs (p. 4, lines 10-15), frequency of service (p. 19, line 12); and rate stability (p. 19, lines 15-24). It is my opinion that assertions made in all of these issues as he raises them are incorrect or do not support his claim. They certainly do not counter act the above argument that the effect of additional competition of the pipeline will exert downward pressure on transportation rates on grain in addition to petroleum.

Q. Would you respond to the "back haul" claim?

A. Dr. Whitelaw asserts that petroleum shipments up bound reduce rates for wheat and barley growers who ship down river by invoking the so-called "back haul" principle. The back haul argument has to be placed into perspective of how it applies and how important it is in the overall scheme of determining rates. Back haul cargo can affect both the demand side of the market and the supply side of the market, depending on its nature. If Tidewater ships wheat down river in one barge and petroleum up river in a separate barge then both cargoes contribute to the total demand for its service. Losing petroleum business will reduce the demand for Tidewater's service and this may reduce (not increase) the price it can charge for its service. If the *same* barges contained

petroleum going up and grain going down the river, then the downward demand pressure of losing the cargo would still occur. However in this special case this downward price pressure would be partially or wholly offset on the supply side of the market by the cost of moving the barge now including the cost of coming up the river empty as well as the cost of going down river loaded.

But Tidewater is not using the *same* barge to ship grain down river as it uses to ship petroleum up river. In terms of grain transportation rates, incremental cost savings from avoiding empty movements of barges upriver do not apply to specialized tanker barges, only multiple purpose or combination barges that carry both petroleum and grain. Both types of barges have historically been used to haul petroleum up the Columbia and Snake rivers by Tidewater. If you read Dr. Whitelaw's testimony where he describes Tidewater's current fleet and how it is deployed you will note that Tidewater lists 4 double hull petroleum barges, 5 single hull petroleum barges and 62 grain barges (Pre-filed testimony of Ed Whitelaw, p. 18, lines 19-22). Tidewater acquired a fleet of combination grain and petroleum barges in the seventies and early eighties. This multiple purpose barge that allows the barge company to possibly avoid deadheading empty barges up stream to meet the demands for downstream grain movements is not mentioned because Tidewater no longer uses these to haul petroleum. It appears that using these for double duty was abandoned partially because they do not meet today's double hull safety standards. To build double hull vessels to carry grain is probably not an economic option and double hulls are not needed to protect against grain spills, as they are to reduce the danger of petroleum spills. Actually using these barges for dual

purposes probably did not generate large savings in the first place. Several movements of these barges would be required to land the same amount of petroleum as the double hull specialized tanker barges suitable exclusively for hauling petroleum. Obtaining a double coincidence of timing of the same barge going up river and down river was possibly another drawback of the old combination barges that carried both grain and petroleum

Tidewater has abandoned the use of multiple purpose barges to carry petroleum and uses specialized petroleum barges only which do not carry grain. These specialized petroleum barges deployed by Tidewater compete with grain barges for tow space each time a tow goes up the river. This is not providing a back haul option that lowers cost. Specialized tanker petroleum barges have to return down the river empty, just as specialized grain barges are moved up the river empty. Specialized tanker petroleum barges compete with grain barges for space in river tows, but they do not fill empty space in grain barges coming up the river. Since there is only the specialized barges to consider the back haul argument can not reverse the conclusion that grain transportation rates will face downward competitive pressure as a result of entry of pipeline competition against Tidewater.

Q. What is your point about how Dr. Whitelaw mistates or misuses the concept of sunk fixed cost.

A. Dr. Whitelaw makes an assertion (p. 4, line 10)

"Another factor contributing to increased transportation charges for grain is Tidewater's idled investment in double-hulled petroleum barges. Since 1992 Tidewater has had built and has financed over $20,000,000 in new state of the art petroleum barges designed specifically for transportation on the Columbia River. Without the opportunity to transport petroleum, Tidewater must recoup its investment from revenues generated by grain transport alone."

A firm cannot recover sunk costs on something by raising prices of its products. This economic principle is in any economic principles text explaining how prices are determined (e.g. see William J. Baumol and Allan S. Binder, Economic Principles and Policy, Dryden Press, Seventh Edition (1998 Update), pp. 196-198). Price and output minimized loss or maximized profit levels are not affected by the cost of assets already acquired. The only costs relevant in pricing decisions are marginal or incremental costs of bringing a barge up the river to fill it with grain, not the sunk costs of barges acquired that haul petroleum. Incidentally this same principle applies to the alleged back haul issue. The cost of the petroleum barge - whether it is setting back in Vancover tied to the shore empty or is moving up the river loaded - has nothing to do with the marginal or incremental cost of bringing a grain barge up river empty. The cost of bringing the barge up river is still the same in either case. If the same barge carried grain and petroleum then the marginal cost of bringing the barge up and returning down the river could be shared-but this is not the case since Tidewater uses separate barges.

The principle that fixed or sunk costs have no bearing on the profit maximizing or loss minimizing price of a service or a product is one that economists have to remind their audience (and sometimes themselves) of continually because it is almost counterintuitive. Part of the confusion is in how we apply the principle of "sharing the

overhead". In the case of barge transportation the capital costs of barges, tug or tow boats, and terminal facilities, etc. are fixed costs. They are sunk costs that occur independent of how much cargo the barge firm carries. They are the same if the tug and or barges are idled and tied up or deployed. As the barge company attracts more revenue to cover these costs it improves its profit margin. But to obtain more revenue by hauling cargo it has to offer prices that will induce shippers to use its service rather than a competitor's (for example another barge operator, a rail carrier, or a truck carrier). The amount of its fixed costs has nothing to do with its competitors cost's and therefore the price they charge. As shippers substitute pipeline for barge transportation the affected barge carrier would be acting irrationally to raise prices of transporting grain and other commodities. Why? Because it would most assuredly lose that cargo as well - precisely when it would need more cargo to replace that lost business!

Q. You do not expect "frequency of service" for grain shippers to be affected if the Cross Cascade pipeline captures petroleum shipments from Tidewater?

A. Frequency of service will primarily depend upon the demand for grain transportation which is derived from overseas demand for grain and the availability of barge and tug service. Under incentive of added competition of the Cross Cascade pipe line, Tidewater would need to consider increasing its service to its grain customers to capture more grain cargo to offset the loss of its petroleum business. In terms of the supply of transportation service, additional tow space would be available to increase the frequency of service to grain shippers if there is demand to move grain down the river.

At a busy time when tow space is in short supply, if a petroleum barge is not replacing grain barges, frequency of service available to grain shippers could increase. Tidewater states that two of its double hull petroleum barges replace four of its grain barges in a tow or one petroleum barge will replace two grain barges in a tow. Again each time a tug has petroleum barges in its tow this reduces the potential number of grain barges that can be towed. Each time a barge comes up the river loaded with double hulled petroleum barges there is reduced service available to carry a grain barge when the petroleum barges are returned empty. This could reduce the frequency of service. Conversely removing the petroleum cargo could effectively increase the frequency of service.

Finally since grain is a relatively low value non perishable item, it makes little difference whether two barges in separate trips in a week pick up two barges each or one tug picks up four barges during that period. Frequency of service is not a highly critical issue given the high volume of grain and other cargo carried on the river in addition to petroleum.

Q. Dr. Whitelaw alludes to rate stability on the river potentially being disturbed by the pipeline since Tidewater carries at least 70 percent of the grain on the system (p. 19, lines 15-24). Can you refute Dr. Whitelaw's observation about rate stability

A. I repeat I do not expect grain transportation prices to go up as a result of the pipeline. It is my impression that rates for hauling grain have been relatively stable in the past and I

would expect Tidewater will be hesitant to disturb this stability if the only thing that changes in the future is construction of the Cross Cascade pipeline. Tidewater is one of three carriers of grain on the river. Economists classify an industry with only a small number of firms, say less than four, as an oligopoly. Oligopolistic firms are noted for resisting disturbing price stability (e.g. see William G. Tomek and Kenneth L. Robinson. Agricultural Product Prices. Ithaca: Cornell University Press, 1990, p. 99.). If Tidewater attempts to raise grain transportation rates, its competitors would gain by keeping their prices the same and capturing Tidewater's business. Their demand increases as a result of Tidewater raising its rates so they get more business. This is an added competitive dimension of why Tidewater will not find it economically feasible to raise its rates for shipping grain. If it tries this it will find that the other two carriers shipping grain on the river can free ride at its expense. So can other land carriers (rail and truck) whom Tidewater must compete with as grain originates further away from the river.

Q. Since you disagree that rates will go up, can you state categorically that grain transportation rates will go down as a result of construction of the pipeline?

A. Tidewater will be under pressure to lower grain transportation rates for the reasons I gave above, but it may resist this. Given its strong oligopolistic position on the river, if it does lower rates, other carriers on the river would have enormous incentive to lower their rates as well since they could lose critical market share. Tidewater would be in danger of setting off a downward spiraling price war. Without the profits it has enjoyed

from its monopoly position as the only carrier of petroleum on the river, Tidewater would be on a leveler playing field with the other water carriers. It would have to be careful about a predatory effort to totally monopolize grain carriage on the river as well. Before Tidewater would lead the way in reducing rates to capture more grain traffic it would have to consider how it's competitors' might react (e.g. see F.M. Scherer. Industrial Market Structure and Economic Performance. Chicago: Rand McNally & Co., 1970, pp. 164-173.). While I dispute grain rates going up I can not assure these rates will go down. But if Tidewater lowers its rates for carrying grain and the other water carriers cooperate, all river operators can capture more grain traffic currently carried by rail. Weighted average shipping rates for truck-barge and rail shipments of grain from elevators located on branch lines from Coulee City to Cheney and Marshall to Pullman in Eastern Washington were reported as 39.45 and 36.84 cents/bushel, respectively in a survey conducted in 1996 (Jessup, E. and K. Casavant. "Economic Evaluation of Grain Shipment Alternatives: A Case Study of the Coulee City and Palouse River Railroad. EWITS Working Paper # 8, March 1997, p. 9.). By lowering rates another 10 percent or so barge would be able to capture rail traffic over a further distance from the river than it currently does.

Q. Will Tidewater continue to service the grain business if they lose petroleum business?

A. There are two other tug companies who haul grain and they are not in the petroleum business so it is obvious that hauling petroleum is not essential to being able to service the grain and other cargo traffic on the river.

The proposed pipeline will obviously impact Tidewater's petroleum business. Introducing competition may cause a reduction in profits and some reduction in employment of personnel. However the extent of the effect on Tidewater is over stated. The alternative cargoes (grain, containers, wood products, etc.) carried by barge will still be available. Over the period 1980 to 1995, petroleum shipments constituted about 15 % of a total tonnage shipped by barge on the slack water navigable portions of the river system (See Exhibit B; appendix tables 1 and 2). That leaves 85 % of the cargo for Tidewater to participate in transporting even without the petroleum.

Q. Do you have any other evidence that Tidewater can remain competitive in the carriage of grain and other products if the Cross Cascade Pipeline is built?

A. Tidewater has not provided cost and revenue data so I can only make some comments from my general familiarity of economic circumstances that relate to Tidewater's ability to withstand added economic competition. Tidewater's ability to absorb lower rates on products other than petroleum and continue to operate is reinforced by the firm's predominate position in the Columbia Snake River barging system. Barge transportation has many advantages working in its favor. Barge transportation's role in Eastern Washington's transportation system has been studied in considerable depth at

Washington State University in the *Eastern Washington Intermodal Transportation Study* (EWITS). The system consists of rail, truck, barge, and pipeline components (airway transportation is important as a user of petroleum, but does not play a major role in petroleum transportation). Rail is more than three times as energy efficient as truck. Rail can carry one ton of commodity 202.3 miles per gallon of fuel. Trucking can carry one ton of commodity 59.2 miles per gallon. Barge can transport a ton of commodity 514.0 miles on a gallon of fuel (Lenzi, J. C., Eric L. Jessup and K.L. Casavant. "Prospective Estimates for Road Impacts in Eastern Washington from a Draw down of the Lower Snake River." EWITS Working Paper # 2). Revised and updated numbers may be released soon but they will still note that barge is an energy efficient mode of transportation.

Barge also enjoys the advantage of large-scale movements, especially in the case of grain shipments. A 5-barge tow could carry 18,000 tons of grain. A unit train consisting of jumbo hopper cars carrying 100 tons each could carry 2,600 or 10,000 tons, depending on whether a 26 car or 100 car train is employed. A large semi truck would only carry 25-30 tons. The scale economies consist of larger loads per unit of equipment and manning costs. This is offset in part by the slower transit time of barge shipments increasing crew, equipment and inventory time costs per ton-mile of cargo shipped.

There is a real cost advantage associated with water shipment over rail if the associated truck haul cost does not outweigh the energy and scale efficiency of barge over rail.

Moreover, maintenance and improvements of the navigational system are subsidized by general taxpayers whereas rail and pipeline systems more typically pay the full cost of maintaining their systems. Tugboat operators pay about $0.20 per gallon as a waterway fuel tax but this covers only a small portion of costs associated with construction and maintenance of the barge navigation system on the Columbia/Snake system. The Inland Waterway Fuel Tax goes into a trust fund which has only been used to date to pay half the $329 million cost of the new Bonneville lock. All other dam and lock construction costs, as well as dredging and lock operation and maintenance costs, have been paid by the general taxpayer rather than by shippers and carriers using the waterway.

One recent study estimates that while grain shippers pay only $1.23 per ton to ship grain on the Snake river component of the system the total social costs including navigational subsidies and costs to taxpayers and electric rate payers for salmon recovery efforts is $13.89 (Oregon Natural Resource Council. Restoring the Lower Snake River: Saving Snake River Salmon and Saving Money. p. 19-alternative estimates of these costs may be forthcoming in the US Army Corps of Engineers Lower Snake River- Juvenile Fish Mitigation Feasibility Study but this study is still in process). Lock flushes associated with navigation on just the upper four dams of the Columbia Snake waterway are estimated to run over one half million dollars annually. Since much more cargo goes through the four Columbia river locks this would be even more. Dredging and other lock maintenance and navigational aid expenses are paid by taxpayers. By way of contrast, the Cross Cascades Pipeline is a regulated common carrier private enterprise venture wholly financed by private rather than taxpayer dollars. Rail roads are private

entities that have to cover all their construction, operation, and maintenance costs. Truckers pay much higher fuel taxes per gallon of fuel consumed than do barge carriers in addition to using much more fuel per ton mile of cargo carried. In short subsidies are an additional reason that barge transportation is in a very advantageous position relative to the competitive position of competing modes.

In sum Tidewater has access to alternative cargoes and it has competitive advantages that give it room to continue operating and lower its rates in response to greater competition from the proposed pipeline. Tidewater will most assuredly continue to transport grain as well as other cargoes on the river even if it looses all of its petroleum to the pipeline.

Q. Obviously you think Tidewater has certain competitive advantages in hauling wheat. Why is barge transportation of petroleum not as competitive?

A. Some have attempted or discussed developing a pipeline option for grain, but that has not been demonstrated to be feasible in today's logistical network. Petroleum pipelines on the other hand have a proven record of efficiency as well as feasibility. Specifically pipeline does have a competitive advantage in transporting petroleum products from Puget Sound refineries to eastern and central Washington over barge. While barging is an energy efficient mode of transportation, it is limited to regions with a navigable waterway. For cargoes originating and or terminating away from the navigable portions of the Columbia Snake rivers, the truck haul in conjunction with barge movement offsets this inherent

advantage because truck is the least energy efficient of all modes. The proposed Cross Cascade pipeline can replace unnecessary truck and barge transits with more direct pipeline connections. Pipelines are identified in one of the EWITS studies as the most cost effective mode of all to transport energy products (Lee, Nancy S. & Kenneth L. Casavant, "Rail Traffic in Washington: A Commodity and Origin-Destination Analysis-1990 to 1995." EWITS Research Report # 19, December 1997, p.1).

In the case of the proposed Cross Cascades pipeline the location of the refineries relative to barge transportation availability and central and eastern Washington market area served is an obvious component of the pipeline's advantage. Currently petroleum product is shipped from Puget Sound refineries approximately 300 miles by pipeline, or by ocean going tankers and barges, to Vancouver, Washington-Portland, Oregon on Olympic's north south pipeline where it is piped into tankage. It is then loaded onto barges and transported approximately 225 miles to Pasco, Washington. The proposed pipeline would connect to the existing Olympic pipeline near Woodinville, Washington northeast of Seattle, cross Snoqualmie Pass to a truck distribution terminal at Kittitas near Ellensburg, and then terminate at Pasco, Washington. This routing of fuel involves a transit about the same distance by pipeline as the current Olympic route to Vancouver, Washington, but eliminates the up river haul, and at the same time serves several north central and north eastern Washington areas more directly from the Kittitas terminal. The terminal at Kittitas would also reduce the need for trucking fuel across Snoqualmie and Stevens passes to serve north central and eastern Washington.

Olympic calculations indicate the cost of transporting petroleum by the proposed 231 mile pipeline would be about 40 percent less than by other modes currently used (Frank Hopf, Direct Testimony before the State of Washington Energy Facility Site Evaluation Council in the Matter of Application No. 96-1, Olympic Pipeline Company Cross Cascade Project, p.8.). Professor Keith Leffler estimates the savings would accrue to over $400 million over 25 years time (see rebuttal testimony of Dr. Keith Leffler). Customers including grain and other agricultural producers who use energy in the region would have an efficient alternative source of petroleum transportation available to serve their needs. Also with pipeline there is no need to return empty equipment (or seek a back haul cargo). This is an added reason that pipeline has certain inherent advantages in hauling petroleum products over other modes.

Dr. Whitelaw quotes Tidewater's contention (p. 15, line 8) that "If the Council grants a competitive advantage to Olympic, the adverse impact on the well being of Tidewater, its employees and its customers is *without question*". This assertion has considerable question in it because it misstates the issue. The Council is not "granting" a competitive advantage to Olympic. The Council would grant the proposed petition allowing greater competition. For reasons discussed above Tidewater would have some competitive advantages while the pipeline would have others. Tidewater's other business will continue to exist and its grain customers stand to benefit from the entry of an alternative competitive mode of transportation service, if the Cross Cascade Pipeline is built.

EXHIBIT A

EXHIBIT B