TESTIMONY REBUTTAL

Q. Please state your name, address and professional position.

A. My name is Paul D. Rolniak. My business address is 12000 N. Pecos Street, Suite 310, Westminster, Colorado 80234. I am a Vice President and principal of EAI, Inc. - a consulting firm specializing in regional analysis of petroleum supply - demand relationships.

Q. Please summarize your professional qualifications with respect to the testimony you are about to offer.

Details of my qualifications are contained in the attached vitae, Exhibit PDR-1,Tab A. I hold a Bachelor of Science in Chemical Engineering (1972) from the University of Arkansas and a Doctor of Philosophy in Chemical Engineering (1977) from Rice University. I have worked for Monsanto Petrochemicals (1972) in Springfield, MA, Exxon Research and Engineering (1977 - 1979) in Baytown, TX, and for Pace Consultants and Engineers (1980 to 1983) in Denver, CO. In 1983, I helped in forming EAI, Inc. At EAI, we specialize in the detailed regionalized analysis of crude oil and refined products supply - demand relationships. EAI's regionalized studies encompass all aspects of the petroleum supply - demand networks; consumption, manufacturing, transportation and pricing. In this capacity, I have been the principle author of EAI's regionalized analysis study of the Pacific Northwest and co-author of EAI's regionalized analysis study of the Rocky Mountain and Pacific Southwest region.

Q. Please summarize your rebuttal testimony.

Mr. Whitelaw presents no economic analyses to support the estimates of terminated personnel and hence the economic impact. Mr. Whitelaw is simply taking the unsupported Tidewater estimates and calculating the impact without evaluating the reasonableness of the figures. Mr.

Whitelaw does not present any economic analyses of the Tidewater operation versus that of the proposed pipeline but assumes based on Tidewater's unsupported assertion that all upriver petroleum movements will cease. No analysis is presented to indicate the degree of competitiveness that Tidewater has in the transportation market. Mr. Whitelaw also does not account for any economic benefits of the construction and operation of the Cross Cascades pipeline into the economic impact. From our analyses, we assert the following. First, Tidewater will remain the economic choice for petroleum movements from Pasco to Wilma, WA and Portland to Umatilla, OR plus may be the economic choice for the movement of integrated California origin refiner - marketer barrels from Portland to Pasco. Based on the foregoing and the absence of analytic basis for the Tidewater layoff projections, then the layoffs and hence the economic impacts calculated by Mr. Whitelaw are too large. Second, Mr. Whitelaw in his statements regarding petroleum prices in eastern Washington fails to comment on the potential price impact of adding a new, more competitive (paraphasing Tidewater's and Mr. Whitelaw's description) transportation route, Cross Cascades, into the Pasco market combined with the increased access that a known low price competitor, ARCO, will have on prices to the consumer. General economic theory says that prices will decline relative to the current market and consumers should benefit. Lastly, Mr. Whitelaw contends that the Cross Cascades pipeline will not benefit the residents of western Washington but fails to note the benefits of (1) potentially removing 14,600 BPD(1997) of Puget Sound to Portland barge and tanker traffic and (2) reducing the tanker truck traffic associated with the movement of 6,000 to 14,000 BPD BPD of petroleum product from the Harbor Island area to eastern Washington.

Q. On Page 3, Line 16, Mr. Whitelaw asserts that the eastern Washington consumers pay some of the lowest gasoline price in the state of Washington, do you have comments relative to his assertion?

A. Yes, Mr. Whitelaw fails to note that this may be due to the presence of multiple competing sources of supply from at least four different refining centers accessing the market via at least four different transportation modes. Based on general economic theory, addition of a fifth transportation mode or routing that competes with existing modes and routes should lower prices further. Construction of Cross Cascades pipeline should give ARCO better access to the eastern Washington market. ARCO is well known for its highly competitive retail pricing posture. This performance would have a tendency to lower prices further.

Q. On Page 3, Line 18, Mr. Whitelaw states that the proposed pipeline would have serious economic consequences on Tidewater and related economies located in Vancouver, Pasco and other parts of Washington, please comment on the analysis of Mr. Whitelaw?

A. Mr. Whitelaw states that approximately 89 employees of Tidewater will lose their jobs due to the operation of the pipeline but Mr. Whitelaw presents no supporting analyses that indicates that Tidewater will become uncompetitive in the transportation market or what sort of margin exists between Tidewater's petroleum revenue and their operating costs. As demonstrated via exhibit later in this document, Tidewater will remain an economic transportation routing for a number of its current transportation routings. If this true, then Mr. Whitelaw's figures for employment losses and economic impacts are overstated.

Q. In Line 10, page 4, Mr. Whitelaw states that grain producers will have to pay for Tidewater's idled $20,000,000.00 investment in double hulled petroleum barges, please comment on the justification for this assertion?

A. Tidewater was required to construct these state of the art, double hulled barges by the Oil Pollution Act of 1990 and the Clean Air Act Amendments. These barges were built at

Tidewater's own construction company subsidiary Sundial. No true construction costs of the barges are presented therefore the $20,000,000.00 figure must be viewed as suspicious until certified costs are presented and analyzed. The $20,000,000.00 could have been the result of inflated profits to the construction subsidiary. Assuming that the new double hulled barges were placed into service starting in 1993, during the period from 1993 to 1998, it is estimated that Tidewater's revenue from petroleum exceeded $100,000,000.00. Incremental revenue over 1993 figures exceeded $14,000,000.00 through 1998. In general, the payback period for any prudent investment is between one and a half to three years. This suggests that the double hulled barge investment may have already paid itself out. Additionally, Mr. Whitelaw fails to assess whether the barges can be sold if they do become idle thus recouping at least a portion of the investment. Since Mr. Whitelaw presents no economic analysis of the competitiveness of Tidewater in the various transportation routings, the presumed $20,000,000.00 loss figure is entirely fictious if Tidewater is competitive in all or most of its transportation routings. Lastly, Tidewater's investment in the double hulled barges is a normal action of any company wishing to participate in a business area, this is generally referred to as capitalism and is the basis on which the United States operates. As such, Tidewater assumes the risk of the capital investment in the hopes of an economic gain just as the owners of Cross Cascades do in the construction of the pipeline. If Tidewater incurs a loss in this investment, then this is a matter between Tidewater and its investors. However, Mr. Whitelaw indicates that grain shippers will ultimately have to pick up the cost of the idled petroleum barges even though the there may be no justification for it as they may already be paid for. No economics or financial analysis are provided to support or not support this contention. This suggests that there is not enough true competition in the grain shipping business on the Columbia River and/or that petroleum shipping may actually be subsidizing the grain shipment business. These are impossible issues to comment accurately on without analyzing the economics of petroleum transport versus grain transport on

the Columbia River. This analysis requires the financial information requested of Tidewater but which Tidewater has not provided.

Q. On Page 9, Line 13, Mr. Whitelaw states that Mr. Wise of Purvin and Gertz indicated that approximately 20,500 BPD of product was delivered by Yellowstone pipeline from Billings to eastern Washington, is this accurate?

A. Statement by Mr. Whitelaw does not consider the additional approximately 6,000 BPD of premium gasoline, distillate and jet fuel that is shipped via rail from Helena to Spokane in order to circumvent the interdicted Missoula to Thompson Falls segment of Yellowstone pipeline. The 20,500 BPD indicated in the statement is the approximate throughput of unleaded regular gasoline on the Yellowstone Thompson Falls to Spokane segment.

Q. Please comment on Mr. Whitelaw's discussion of demand On Page 10, Lines 1 through 24.

A. Olympic's definition of demand is clear - demand as defined in eastern Washington is composed of true product consumption in the defined market area, eastern Washington, and the export of product to markets lying outside of the defined market area. By defining demand in this manner, it possible to directly and accurately relate supply and demand in the defined market area. This is known as an supply - demand balance which accounts for all sources and sinks for product in an area. It appears that this is a confusing point for Mr. Whitelaw. The result is that as stated, demand for refined products in the defined timeframe, 1996, in the defined market area, eastern Washington, is composed of 66,300 BPD of product consumed in the area and 15,200 BPD of product that is exported to markets (Northern Idaho and Northeast Oregon) lying outside of the defined market area.

Q. At the top of Page 11, Mr. Whitelaw asserts that Olympic is building a pipeline for Washington refiners to serve the growing Idaho markets, please comment on his assertions.

A. As originally applied for, the transportation and delivery area for Cross Cascades pipeline is the Seattle to Pasco corridor. At the time of the application, the Chevron pipeline reversal announcement had not been made. There is no guarantee that it will actually take place or that Cross Cascades pipeline will even tie into the Chevron pipeline reversed segment. Even if Cross Cascades ties into the reversed Chevron pipeline segment, volumes to shipped through the Chevron pipeline segment are determined by the shippers and not Cross Cascades. Considering that the Boise market has historically been supplied by Salt Lake City refiners (Amoco, Chevron, Phillips, Flying J and Crysen) and that the retail and distributor make-up is largely represented by Salt Lake City refiners, then the demand for Puget Sound volumes could be very small. Since Salt Lake City refiners have made no announcement that they are immediately withdrawing from the Boise market, it must be assumed that they will continue to supply the market for the foreseeable future. If ultimately, Salt Lake City origin product is displaced or replaced by Pasco origin petroleum products shipped via the reversed Chevron pipeline, then this represents the normal economic functioning of the market place. The petroleum products originating at Pasco will most likely be produced at refineries either in California or Washington. An important consideration relative to the supply of California origin product is the imminent start-up of Longhorn products pipeline from Houston to El Paso. As intended by Longhorn owners, Longhorn pipeline volumes moving through the Kinder Morgan pipeline may displace California origin petroleum product out of the Phoenix market making California supply long. In this case, more petroleum products will be available to ship from San Francisco (primarily Chevron and Tosco) to Portland. This California origin product would be the incremental product for shipping on the reversed Chevron product pipeline segment to Boise. This would be true even

if the Cross Cascades pipeline segment is not built. This is because the incremental California origin product at Portland can be either shipped via barge up the Columbia river to Pasco or exchanged for Puget Sound product shipped on Cross Cascades. Ultimately, the amount of product shipped up the Columbia River to Pasco versus the amount of product shipped from the Puget Sound to Pasco on Cross Cascades depends on the actions of the shippers, the ultimate economics of barge versus pipeline transportation, comparative product manufacturing costs, and the actions of the refining marketing companies. Tidewater as a shipping company involved in this business sequence is free to set transportation prices at a level that allows it to economically and profitably participate in this business sequence. Therefore, it is reasonable to assert that the upriver movements via barge will continue to some degree and that Tidewater has a major say in the degree to which it happens.

Q. On Page 11, Line 4, Mr. Whitelaw states that the reversed Chevron pipeline will "create a demand", do you find this an accurate statement?

A. No, pipelines do not create demand. Pipelines provide transportation. If product at the origin of the pipeline can economically be transported to the other end of the pipeline, then in general the product will move in that direction.

Q. Also, on Page 11, Line 7, Mr. Whitelaw states, after some dialog on the volume shipped from Boise to Pasco and the capacity of the reversed pipeline, that "if there is demand in Boise for petroleum on the Chevron/Boise line, then Olympic is building the pipeline for Washington refineries to serve growing Idaho markets", is this a fundamental change from what will happen without the pipeline?

A. No. If economically viable, Washington refineries will supply at least a portion of the product through the reversed Chevron pipeline whether Cross Cascades product pipeline is built or not. This is because without Cross Cascades pipeline, product for the reversed Chevron pipeline will originate at Portland which both California and Washington State refineries supply.

Q. Please comment on the assertion of Mr. Whitelaw on Page 12, Line 15 that consumers create the demand for petroleum products and not the shippers.

A. White it is true that consumers create the demand for products, it is the shippers on Olympic pipeline that are the active supplying agents to the consumers in the eastern Washington market. As accurately portrayed by Olympic, they requested the construction of Cross Cascades pipeline.

Q. Please comment on the discussion of Mr. Whitelaw on Page 13 regarding Olympic building a pipeline to serve eastern Washington when western Washington has a higher level of demand and a higher rate of demand growth.

A. Construction of Cross Cascades pipeline will divert product currently shipped on the Olympic Seattle to Portland segment, currently at capacity, that is loaded onto barges and shipped upriver to Pasco. Diverting this product will free up capacity on the Seattle to Portland segment that can subsequently be used to better supply the product demand needs of western Washington and Oregon, not just eastern Washington as Mr. Whitelaw states. Further benefits to the residents of western Washington include (1) the rerouting of petroleum products in the freed-up Olympic pipeline system that are currently shipped via tanker and barge from the Puget Sound to Portland and (2) decreasing the number of tanker truck shipments of petroleum products from the Puget Sound area to eastern Washington. The amount of light petroleum products shipped via water from the Puget Sound to Portland amounted to 14,600 BPD (1997) or 67 tug and barge

movements and 12 tanker movements. Estimates of the tanker truck traffic from the Puget Sound area to eastern Washington differ but are in the range of 6,000 to 14,000 BPD.

On Page 14, Line 10, Mr. Whitelaw states that Yellowstone pipeline is ignored by Olympic as an origin for product in eastern Washington, is this true?

A. This is not true. As shown in Exhibit PDR-2, Tab B, Billings area refineries are highly utilized and basically are operating at capacity. For Billings refineries to supply more product to the eastern Washington market under full capacity operating conditions, they would have to pull product out of higher value markets in Montana, Wyoming and Utah and place this product in a lower value eastern Washington market. This makes no economic sense.

Q. Please comment on the statement of Tidewater on Page 15 Line 8, that the council is granting a competitive advantage to the Cross Cascades pipeline.

A. The Council grants the building of a pipeline that may offer competitive transportation into the eastern Washington market, the Council does not grant competitive advantage. The exact nature of the competitive advantage of Cross Cascades versus Tidewater is not demonstrated by Mr. Whitelaw nor is it supported by any certified financial figures or analysis released by Tidewater. As such, the exact nature of the ability of Tidewater to compete in this market is unknown.

Q. Please comment on the statement Page 15, Line 11, that the investment in state of the art double hulled petroleum barges will have been wasted if Cross Cascades pipeline is built.

A. Investment in state of the art double hulled petroleum barges is required by the Oil Pollution Act of 1990 and the Clean Air Act Amendments. This is not, as implied, the result of largress on the part of Tidewater.

Q. Tidewater states on Page 15, Line 13 that petroleum transportation will be in the exclusive hands of the pipeline companies, is this true?

A. Tidewater is free to set rates that are competitive with Cross Cascades. If, as asserted by Tidewater, the pipelines are more competitive, i.e. offer lower cost transportation routing to eastern Washington, then this should result in as low or lower prices for petroleum products in eastern Washington. This is because (1) at least some of the current shippers that transport product up the Columbia River will be shipping product via Cross Cascades and (2) represented among the shippers that will have lower cost access to the eastern Washington market is ARCO. ARCO is well known for its low cost gasoline retail pricing behavior in markets, i.e. provide lower priced products to consumers.

Q. On Page 16, Line 3, do you agree with the economic impact analysis of Mr. Whitelaw?

A. Per Mr. Whitelaw, Tidewater estimates that the proposed pipeline would cause it to terminate 89 workers but provides no analysis that supports these estimates. As shown in Exhibit PDR-3, Tab C, Tidewater will remain the most competitive transportation source for supplying Lewiston/Wilma from Pasco and for supplying Umatilla from Pasco. Additionally, the transportation cost of diesel fuel for the Union Pacific railroad from Portland via barge versus Seattle via Cross Cascades and trucking (see Exhibit PDR-3, Tab C) indicates that the Portland origin via barge is competitive with the proposed Cross Cascades routing, therefore the Portland to Umatilla barge movement may continue even without Tidewater changing its rates. Lastly,

as noted in Exhibit PDR-4, Tab D, Richmond is the primary source of refined product moving from California to Portland. Richmond is the location of the 235,000 BPD Chevron refinery. Because refiners generally choose to supply their own retail with their own product from their own refineries whenever it is the most economical choice, it is likely that Chevron will continue to move at least some of their own physical product produced at the Richmond refinery up the Columbia River to supply Pasco. From Pasco, Chevron can supply its own Richmond refinery volume to its own retail locations in Pasco, Spokane, and Boise and make use of its existing Chevron pipeline asset - the Pasco to Spokane segment and, if economical, the reversed Boise to Pasco segment.

From the foregoing, it can be concluded that Tidewater under its existing published tariff structure will be:

1. Competitive in supplying the Wilma terminal market from Pasco

2. Competitive in supplying the diesel fuel demand at Umatilla either from Pasco or Portland

Given that Chevron supplies its own physical barrels to Portland, it is highly likely that the upriver shipment of Chevron physical product is likely to continue but is at least partially determined by the rate that Tidewater charges Chevron. Based on the apparent economics and the integrated physical supply aspects of the in-place supply network, the four petroleum movements described above are likely to continue at least to some extent. Therefore, the employee termination figures given in Line 18, page 16 are probably higher than can be reasonably expected.

Q. Please comment on the economic analysis of Mr. Whitelaw of Page 16, Lines 8 through 15.

A. First, the economic analysis fails to also consider the positive contributions of the pipeline construction and operation. Second, the economic analysis fails to account for the status of the economy. In an economy where the unemployment rate is low, the average length of unemployment is generally short, i.e. laid off personnel generally find employment quickly. Therefore, the economic impact would be generally much less than the figures calculated by the model.

END OF TESTIMONY

I declare under the penalty of perjury that the above testimony is true and correct to the best of my knowledge. Executed this 23th day of March 1999.

Paul D. Rolniak