BEFORE THE STATE OF WASHINGTON
ENERGY FACILITY SITE EVALUATION COUNCIL

In re Application No. 96-1 of OLYMPIC PIPE LINE COMPANY For Site Certification	))))))))

PRE-FILED TESTIMONY OF LOUIS C. DEARIAS, CPA, CIRA AND KEITH R. UGONE, Ph.D. OF PRICEWATERHOUSECOOPERS LLP

R. Please introduce yourselves to the Council.

S. My name is Louis C. DeArias. I am a Partner in the Financial Advisory Services Group of PricewaterhouseCoopers LLP, ("PricewaterhouseCoopers").

My name is Keith R. Ugone. I am a Principal in the Financial Advisory Services Group of PricewaterhouseCoopers LLP.

PricewaterhouseCoopers is an international accounting and professional services firm, which maintains offices at 1001 Fourth Avenue Plaza, Seattle, Washington and other locations throughout the United States and the world. PricewaterhouseCoopers is the largest professional services firm in the world with over 150,000 employees in more than 150 countries.

Q. Mr. DeArias, please describe your education, professional background, certifications and qualifications as an expert witness in these proceedings.

R. I have resided in the State of Washington since 1964 and during that time have lived in Seattle, Tacoma and Vancouver. I graduated from Shorecrest High School (Seattle) in 1972 and the University of Washington in 1975 with a BA in Accounting.

I have over 20 years experience as an accountant and business advisor in both public and private practice, including positions as Controller, Chief Financial Officer and Chief Executive Officer of various businesses. I am a Certified Public Accountant ("CPA") and a Certified Insolvency and Reorganization Accountant ("CIRA"). I am a member of the American Institute of Certified Public Accountants ("AICPA"), the Washington Society of Certified Public Accountants ("WSCPA") and I am on the board of the Association of Insolvency Accountants. I have also been elected as a Fellow in the American College of Bankruptcy. My curriculum vitae is attached as Exhibit PwC – 1 and includes my previous testimony experience.

I have worked as an employee, officer and consultant with numerous companies to assist them in developing and analyzing business plans and other related issues. Many of these companies have chosen, or have been forced by market, financial, competitive or other factors, to exit a line of business or service that had a direct impact on the company's financial, business and operating condition, including its work force. I am well-versed with the type of financial, business, operating and industry data that needs to be considered in order to analyze and consider, from a business and financial perspective, the issues likely facing Tidewater Barge Lines, Inc. and Tidewater Terminal Company ("Tidewater") resulting from a change in its operating environment and possible staff reductions.

Q. Dr. Ugone, please describe your education, professional background, certifications and qualifications as an expert witness in these proceedings.

R. My primary responsibility at PricewaterhouseCoopers is to provide economic and financial analyses to companies facing complex business issues, decisions, or disputes. I have analyzed the profitability of companies and the economic impact of certain events affecting businesses in a broad range of industries.

My work has included analyzing the economic environment surround a dispute, defining and understanding the functioning of markets, and analyzing the level of competition in a market. I also have a great deal of experience analyzing companies' revenues, costs, and profits. I started my career as a full-time economic consultant in 1985. My curriculum vitae is attached as Exhibit PwC – 2 and includes my previous testimony experience.

Prior to my economic and dispute resolution-related consulting career, I was employed by Arizona State University as a Faculty Associate/Teaching Assistant in the Department of Economics (1979-1838) and by California State University, Northridge as an Assistant Professor/Lecturer, also in the Department of Economics (full-time: 1983-1985; part-time: 1986-1992). During that period of time (1979-1992), I taught college level economics courses including Principles of Microeconomics, Principles of Macroeconomics, Intermediate Price Theory, and Intermediate Macroeconomics.

I am well-versed with the type of financial, business, operating and industry data that needs to be considered in order to analyze and consider, from a business, financial and economic perspective, the likely issues facing Tidewater due to a change in its operating environment. I am also well versed with the type of analyses required to understand the qualitative and quantitative impact of certain events on a more broadly defined economy.

Q. Please give us an overview of the topics you will discuss in your testimony.

We have been asked to evaluate and comment on certain portions of the testimony of Professor Ed Whitelaw submitted on behalf of Tidewater. It is our understanding that Professor Whitelaw will provide testimony as to the negative economic consequences of the proposed pipeline. It is also our understanding that he uses as an input into his analysis certain information received from Tidewater, including that the construction of the proposed pipeline will result in Tidewater terminating 89 employees receiving total income of $5.7 million.

We will testify that, from a business and economic prospective, Professor Whitelaw has not performed the level of analysis and inquiry of Tidewater's financial and operating information reasonably required to express a valid opinion as to the impacts on Tidewater, its employees, or the general economy, if the proposed pipeline is built. Additionally, we will testify that Tidewater has not provided sufficient documentation to support its contention that the construction of the proposed pipeline will cause Tidewater to terminate 89 employees.

In addition, we will testify that Tidewater's dominant position in barging on the Columbia and Snake Rivers and its extraordinary profitability has direct implications for its employees.

As will be detailed later, the validity of the alleged 89 job losses and resulting $5.7 losses of income that is a key element used by Professor Whitelaw to calculate the overall economic impacts on Eastern Washington seems overstated.

Professor Whitelaw calculated only the alleged negative consequences of the proposed pipeline (assuming the loss of 89 jobs). Professor Whitelaw neglected to consider certain positive factors that would reduce the direct and indirect negative impacts of the proposed pipeline to Tidewater's employees and the Eastern Washington economy. For example, positive factors ignored by Professor Whitelaw include: a) the likely reemployment of the majority of the alleged terminated workers and b) the new employees hired by Olympic Pipe Line Company should the proposed pipeline be built. He also does not consider the positive economic impacts the construction of the proposed pipeline will yield to the State and local communities. He also ignores the benefits derived by both lowering the cost and improving the reliability of transporting petroleum products to Eastern Washington. When these and other factors are considered in total, the proposed pipeline will have a clear positive impact for the citizens of the affected local communities and the State of Washington.

We have also been asked to address portions of the testimony of Mark G. Pedersen (Kittitas, Grant, Adams & Franklin Counties), Damien C. Hooper (Grant County), Peter J. Comenzo (Grant County) and Dee Caputo (Adams County). These four counties retained Mr. Pedersen and his firm, Shapiro & Associates, to review the project application. In Section N of the Shapiro report, page 13 is devoted to Socio-economic issues. Portions of Mr. Hooper's, Mr. Comenzo's and Ms. Caputo's testimony, in varying degrees, referred to the purpose and need for the proposed pipeline and the possible negative impacts to barge companies and grain shippers from the proposed pipeline. It appears that much of their testimony was drawn in large part from issues identified in Section N of the Shapiro report. We believe the following testimony, along with the testimony of Keith Leffler and James Jones, addresses those issues related to the potential benefit of the proposed pipeline and alleged impacts.

Q. What type of analysis would be required to analyze the impact of the proposed pipeline on Tidewater or Tidewater's employees?

An analysis of the impact of an external change in any company's condition and operations (such as the entry of a new competitor) requires a comprehensive analysis and understanding of the financial condition and structure of the specific company. It also requires an analysis of available alternatives and the redeployment of its assets and work force. In order to reach an opinion as to the impact of a certain event on a company's workforce, an expert would need to have analyzed and considered many aspects of the company's current, historical and projected operating and financial condition and structure, including the company's historical and projected sources (or alternatives) of revenue, cost, capital structure and employee work force. With respect to this particular matter, prior to opining as to the impact of the proposed pipeline on the number of Tidewater employees, an expert should have reviewed the documents produced to Olympic's attorneys pursuant to their informal and formal discovery requests.

It appears from the testimony of Professor Whitelaw and from the limited "working file" received from Professor Whitelaw to date, that he has not reviewed any financial or operating information specific to Tidewater, and he relied exclusively on general and limited representations made to him by Tidewater's management. Accordingly, it is our opinion that, from a business and financial perspective unless one reviews, analyzes, considers and understands the specific revenue, cost and capital structure and related information of Tidewater specifically, including its work force, it is not possible to reach a valid and supportable opinion or conclusion as to the impact of the proposed pipeline on Tidewater specifically, or its work force. Professor Whitelaw has not done such an analysis.

R. What is Tidewater's market position with respect to petroleum barging on the Columbia and Snake Rivers and how does that market position affect its employees?

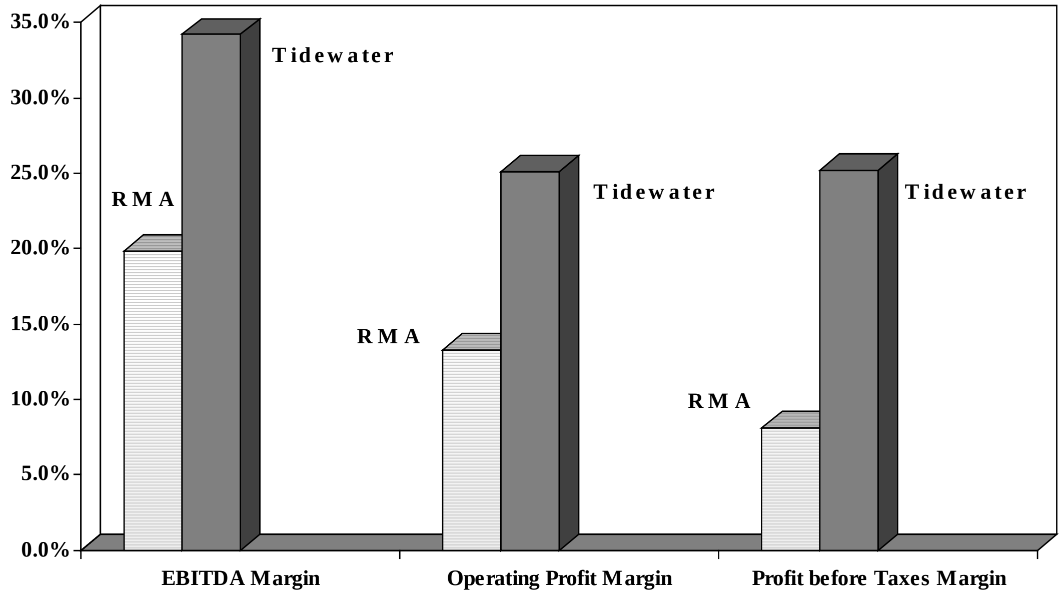
S. Tidewater's own statements indicate that Tidewater is the dominant firm with respect to petroleum barging to Eastern Washington. Professor Whitelaw states as much in his testimony at page EW-15, lines 3 & 4. Tidewater's dominant status is also supported by comments attributed to Mr. Bill Macey of Sterling Ventures in a September 2, 1996 article announcing Sterling Ventures' acquisition of Tidewater for $90 million in cash (attached as Exhibit PwC - 3). The article states, **"According to Mr. Macey, Tidewater has an 80% market share of the Columbia/Snake River system's grain products transportation business, and a 100% monopoly of the petroleum and municipal solid waste container trade."** Mr. Macey goes on to say that because of Tidewater's market share and its ownership of up-river terminals, there are **"formidable barriers to entry"** for competitors and that **"This is a great buy because of [Tidewater's] domination of the market and the bullish long-term outlook in the grain shipment business."** At the time these statements were made, plans for the proposed pipeline were known or should have been known by Sterling and Tidewater.

Tidewater had initially strengthened its dominant position of the Columbia and Snake River system in 1987 with the purchase of Columbia Marine Lines, a subsidiary of Crowley Maritime Corp. Before the merger, Tidewater handled approximately 50 percent of the river barge traffic through Bonneville Lock, hauling mostly grain and petroleum. After the merger, Tidewater controlled more than 60 of the approximately

75 grain barges (80 percent) working on the river and took over the petroleum terminal in Pasco (see Exhibit PwC - 4).

Based on the financial information provided by Tidewater and with regards to Tidewater Barge Lines only, at least the last two years (1997 & 1998) of its 12 year dominant position have allowed the company to earn what appear to be extraordinarily high profits for a company in this industry. In 1997, Tidewater Barge Lines earned approximately $12.5 million before taxes on revenues of $49.6 million. Its results were even better in 1998 when the company earned $16.4 million before taxes on revenues of $54.1 million (see Exhibit PwC – 5). In addition, Tidewater Terminal Company reported profits of $2.3 million in 1997 and $1.9 million in 1998 (see Exhibit PwC – 6).

Tidewater's profits are well in excess of its peer group as reported in the Robert Morris Associates (RMA) 1998 studies. RMA is an association of lending and credit risk professionals including most of the commercial banks in the United States. The RMA annual studies contain composite financial data collected from across the country on a wide variety of industries categorized by SIC number (Standard Industrial Classification) and are used by financial analysts to compare the performance of particular companies to an industry peer group. In our analysis, we used the same SIC category used by Professor Whitelaw to benchmark Tidewater's 1997 actual results to those shown in the RMA studies for the roughly comparable period (see Exhibit PwC – 7). Because of the extremely limited information provided by Tidewater, numerous comparisons (including additional years) are not possible, but three key, and commonly utilized, financial indicators are summarized in the graph and table below:



FINANCIAL RATIOS

	EBITDA MARGIN	OPERATING PROFIT MARGIN	PROFIT BEFORE TAXES MARGIN
RMA Average [1]	19.8%	13.3%	8.1%
Tidewater Barge Lines [2]	34.2%	25.1%	25.2%
Tidewater Multiple over RMA	**+ 1.73x**	**+ 1.89x**	**+ 3.11x**

[1] 1998 – 1999 RMA annual statement studies. (Exhibit PwC – 7)

[2] Tidewater Barge Lines, Inc. Statement of Income (TW 005003). (Exhibit PwC – 5)

The financial results reported above provide insights as to why Tidewater is objecting to the proposed pipeline construction. Tidewater has been earning profits substantially higher than its peers. Tidewater's EBITDA is over 1.7 times the RMA average. EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is a measure of the cash flow generated from the operations of a business and is an important measure of a firm’s financial strength and liquidity. Tidewater’s operating profit margin is almost 2 times the RMA average and Tidewater’s profit before taxes margin is more than 3 times the RMA average. To put Tidewater’s extremely profitable operations into perspective, we have also compared the same financial ratios to other companies located in the Pacific Northwest during approximately the same time period:

FINANCIAL RATIOS

COMPANY NAME	EBITDA MARGIN	OPERATING PROFIT MARGIN	PROFIT BEFORE TAXES MARGIN
Nordstrom	10.3%	6.3%	6.3%
Boeing	2.4%	- 0.6%	- 0.7%
Weyerhaeuser	12.5%	6.9%	4.8%
Starbucks	14.3%	8.8%	9.4%
Tidewater	**34.2%**	**25.1%**	**25.2%**

Source – See Exhibit PwC – 8

Tidewater's results are more than twice those of the companies shown above. Granted, the companies shown are not in the same industry, but these two tables demonstrate that not only are Tidewater's cash flow and profits far superior to those of its peers, but also far superior to those of other well-known Northwest companies.

Tidewater's dominant market position and extraordinary profitability also has direct impacts on its employees. Tidewater's financial strength and strong liquidity should allow the company to pursue new business and investment opportunities that might not be available to smaller or less financially strong companies. For example, Tidewater might be able to acquire other businesses or expand into other businesses leveraging both its financial and operating strength and utilizing some or all of the 89 alleged terminated employees. Any such actions would have an immediate positive impact on Tidewater's employees. In addition, should Tidewater exit all or part of its petroleum barging business, it should be able to redeploy its assets and/or reinvest in its other business segments. This should create employment opportunities for a least some of the alleged 89 terminated employees assumed by Professor Whitelaw.

Mr. Kiive, Vice President of Operations for Tidewater, testified in his March 22, 1999 deposition that Tidewater's annual employee turnover ratio is very low (Exhibit PwC – 9, page 61 – line 11). He testified that once an employee is hired, "They come and they don't leave" (Exhibit PwC – 10, page 60 - line 21). Tidewater's dominant market position and profitability likely plays an important role maintaining the stability of Tidewater's work force. As discuss previously, Tidewater's extremely high profitability gives the company financial flexibility. If Tidewater was faced with a temporary or even prolonged downturns in its business, the company likely has the financial flexibility to retain its experienced workforce, if it chooses to, until business improves, or it restructures its operations. In the absence of this level of profitability and liquidity, Tidewater's workers might be more subject to cycles of lay offs and rehirings as business conditions changes.

In summary, based on Tidewater's extremely profitable history, its apparent financial flexibility and the fact that it has well over 1 year to reposition and restructure itself, Tidewater should be in a position to significantly reduce the number of terminated employees from the alleged 89 terminated employees assumed by Professor Whitelaw.

Q. Could Tidewater make severence payments to employees that lose their jobs?

A. Tidewater has been extremely profitable and generated substantial cash flows. When a business has to right size due to its changing environment, it often offers the affected employees substantial severance and related benefits. Given Tidewater's extremely profitable results and liquidity, it should have the financial capacity to assist the same employees that contributed to Tidewater's success. Professor Whitelaw does not consider any such benefits in his analysis of the 89 alleged terminated employees and the related positive economic impacts. Any severance payments or other benefits paid to employees terminated by Tidewater would decrease, in the year of termination, the direct negative impacts used by Professor Whitelaw to calculate the total negative economic consequences to the region and would also assist the employees while they search for alternative employment.

Q. What is the basis for Professor Whitelaw using an estimated 89 employees to be terminated by Tidewater and the resulting in $5.7 million of lost income as an input into determining the impacts on the overall economy of Eastern Washington from the proposed pipeline (page EW-T 16, lines 3 – 14)?

A. This is an important issue because the estimated number of employees terminated by Tidewater, and the associated lost income, is an essential component of Professor Whitelaw's opinion of the potential negative economic consequences if the proposed pipeline is approved.

Professor Whitelaw states in his testimony at page EW-T 16, lines 3 – 6 that **"*Tidewater estimates*"** the proposed pipeline would cause it to terminate 89 employees with the resulting loss of income of $5.7 million. At page EW-T 16, lines 18 – 20, Professor Whitelaw again testifies that "***According to Tidewater*"**, the company must lay off approximately 89 employees. It seems clear that Professor Whitelaw had no role in determining the magnitude of the potential job losses or the resulting income losses from any terminations of employees by Tidewater. Included in Professor Whitelaw's working file was a fax that appears to have been sent by Tidewater on February 5, 1998 to ECONorthwest. Included in the fax was a schedule entitled Analysis of Eliminated

Positions Due To Proposed Pipeline. This schedule is attached as Exhibit PwC - 11. The number of job losses and associated payroll costs exactly match the figures used in Exhibits EW-11 and EW-12 of Professor Whitelaw's testimony report and equals the direct economic employment impacts from the construction and operation of the pipeline used by Professor Whitelaw (page EW-T 16, lines 6 & 7).

Mr. Ray Kiive, Vice President of Operations for Tidewater Barge Lines, Inc., in his March 22, 1999 deposition, testified that some non-Tidewater employee, possibly a third party consultant whose name and firm he did not remember, completed the analysis supplied to Professor Whitelaw (Exhibit – PwC 12, pages 30-33). Tidewater provided two additional documents that purport to detail the number of employees that allegedly would be terminated if the proposed pipeline were completed. The first schedule on pages 9 and 10 of Tidewater's Responses to Olympic's Interrogatories and Requests for Production, dated March 11, 1999, (attached as Exhibit PwC - 13), shows that a total of 82 jobs will be lost due to the pipeline. In the second schedule, (attached as Exhibit PwC - 14) Tidewater, shows that a total of 90 jobs will be lost due to the pipeline. Tidewater's expert witness, Professor Whitelaw, says 89 jobs will be lost. Tidewater itself simultaneously states that the number of jobs eliminated will be 82, 89 and 90.

When asked to examine Exhibit PwC - 11 (the Analysis of Eliminated Positions Due To Proposed Pipeline schedule) and verify that the total payroll costs shown of $5.7 million is correct, Mr. Kiive, Tidewater's Vice President of Operations, testified that he could not corroborate the figures (Exhibit PwC – 15, page 60, line 6). Tidewater provided another schedule entitled Tidewater Terminal Company/Tidewater Barge

Lines, Inc. - Employee Information (attached as Exhibit PwC - 16) in its interrogatories responses that summarizes annual number of employees, gross payroll and paid taxes and benefits for 1997 and 1998. We compared the gross payroll and benefit totals shown on this schedule to the payroll and benefits expenses shown on schedules provided by Tidewater Barge Lines for the same period (see Exhibit PwC - 17). Except for the 1997 paid taxes and benefits figure of $3.4 million, none of the other totals matched. In addition, the payroll and benefits figures on the Tidewater Terminal Company Employee Information schedule (see Exhibit PwC - 16) do not match the figures labeled as payroll costs on the Analysis of Eliminated Positions Due To Proposed Pipeline schedule provided to Professor Whitelaw (see Exhibit PwC – 11).

If the inputs Professor Whitelaw enters into the IMPLAN program are incorrect (the 89 employees and $5.7 million in related income), the outputs (172 jobs and $5.5 million in income) are then also incorrect and so are his total impact figures. With all the apparent inconsistencies identified above and throughout his testimony, we have serious doubts as to the validity of the analysis performed by Professor Whitelaw and his conclusions.

Q. The September 2, 1996 article detailing Sterling Ventures purchase of Tidewater cited earlier, and included as Exhibit PwC – 3, referred to a "contingent payment obligation" that might increase the price Sterling Ventures paid for Tidewater from $90 million to more than $100 million. Why might a transaction such as Sterling Ventures purchase of Tidewater include a contingency payment and what might it mean for Tidewater's employees?

A. Contingency payments are typical in purchase transactions and are used when the buyer and the seller agree that there is a possibility of some uncertain future event that could affect the future profitability of the business being sold and hence, the negotiated purchase price. An event such as the proposed pipeline would be typical of the type of future event that might compel Sterling Ventures and the owners of Tidewater to structure the sale with a contingency payment as described in the article. If the proposed pipeline were to be approved and Tidewater's barging business impacted, the amount Sterling would be willing to pay for Tidewater would likely be less. If the proposed pipeline were not approved, Tidewater's ability to earn profits from its petroleum barging would continue unabated, and Sterling would be willing to pay a higher price for the company. A contingency payment arrangement is designed to deal with this type of situation.

Normally, in order for the buyer and seller to agree to the amount of the contingency payment, they both must have a good idea of the possible impacts on the business if the future event takes place. They would likely analyze impacts to the company's revenues, costs and profits, including the impact the event could have on the company's employees. It is important to note that the outcome of the future event is irrelevant after the purchase agreement has been executed,but for the contingency payment. Once a transaction in consummated, the parties are implicitly agreeing to proceed regardless of the impacts the future event might have on the business's revenues, costs, profits or employees.

In addition, it is typical for purchase and sale agreements to deal with and compensate employees and officers should certain events occur or not occur. In this case, the eventual outcome of the proposed pipeline could also be an event which could have an impact of the treatment of the affected employees.

Q. Professor Whitelaw includes in his testimony the following section of Tidewater's petition:

> **"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. The millions of dollars invested in new technologies [state-of-the-art doubled-hulled petroleum barges] will have been wasted, as these barges will be unable to compete with the pipeline under present economic projections. This will leave petroleum transportation in the exclusive hands of the pipeline companies. In addition, the cost of carrying grain will necessarily increase as Tidewater will be deprived of the primary cargo which permits its equipment to move upstream on a paying basis. The livelihood of many of its employees will then be at risk." (EW-T 15, lines 5 – 18)**

What is your evaluation of this portion of Professor Whitelaw's testimony?

A. Professor Whitelaw quotes Tidewater's petition for intervention in his testimony but does not offer any evidence to support Tidewater's contentions or state whether he agrees with all of Tidewater's statements.

Tidewater claims that the proposed pipeline, if approved, will have a competitive advantage over barging because "the proposed pipeline is not subject to the rigorous safety regulations imposed upon Tidewater." (Tidewater's petition for intervention, page 4, see Exhibit PwC - 18) Tidewater has not provided any information that quantifies the costs of these “rigorous safety regulations”. Even if these costs do exist, Tidewater has still been extremely profitable as previously discussed. In addition, Tidewater fails to mention the subsidies it enjoys from U.S. taxpayers. Tidewater, and other users of the rivers, only pay a fraction of the actual costs of building, maintaining and operating the locks located on the Columbia and Snake Rivers that allow barge traffic to move freely on the rivers. The remainder of those costs are paid from tax revenues collected from the public by the Federal Government (see Exhibit PwC – 19).

Q. What about the issue of Tidewater’s investment in new petroleum barges and the related impact on its employees?

A. Investments in new assets like double-hulled petroleum barges, involve risk. Businesses factor in that risk when they decide on which investments to make. In a August 1995 article in the Portland Oregonian titled <u>Riverboat Gambler</u>, (attached as Exhibit PwC - 20) the then President of Tidewater, Mr. Ray Hickey, admitted that given the uncertainties facing Tidewater at the time (salmon and dredging issues), Tidewater’s $30 million investment in new barges and towboats was a **“gamble”**. Hickey goes on to say that he makes his business decisions instinctively, without fancy business plans. He just does what seems right. There is nothing wrong or illegal with an owner of a business making decisions in this manner, but there are consequences to such actions. Tidewater now appears to be looking to EFSEC to bail it out from its **“gamble”** and the impact on the alleged termination of 89 employees from the **“gamble”** it took in 1995.

Q. Do you have any comments regarding Tidewater's statement that "Tidewater will be deprived of the primary cargo which permits its equipment to move upstream on a paying basis".

A. In the Conoco letter to the Energy Facility Site Evaluation Council dated 12/15/98 that Professor Whitelaw references in his testimony, Conoco states:

> "At a minimum, it would appear that the 30,000 barrels per day will continue be barged (sic) on the Columbia as far as Portland, and it is likely that some barrels from California refiners will continue to move upstream to Pasco even if the project is built. It is also our opinion that barge (sic) of petroleum products from Pasco to Clarkston/Lewiston is likely to continue, with or without the Cross Cascades pipeline."
> (Conoco letter, pg. 4) (see Exhibit PwC – 21)

Conoco's opinion is that petroleum barging is likely to continue so it is not clear that Tidewater will lose 100% of its petroleum barging business. Professor Whitelaw does not address this possibility in his analysis of the impacts of the proposed pipeline and the related positive impact on the alleged 89 terminated employees.

Q. Are you aware of Professor Whitelaw's opinion that the proposed pipeline will have negative economic consequences to Tidewater's employees and the Eastern Washington economy?

A. Yes.

Q. Do you agree with the conclusions of Professor Whitelaw?

A. No.

Q. Why do you disagree with Professor Whitelaw's opinion that the proposed pipeline will have negative economic consequences?

A. First, Professor Whitelaw makes conceptual errors in his analysis. Second, he uses extreme and inappropriate assumptions in his analysis.

Q. What conceptual errors does Professor Whitelaw make in his analysis?

A. Professor Whitelaw looks only at the economic costs associated with the pipeline. However, every economic activity, whether it is driving a car or building a pipeline, involves both economic benefits and economic costs.

Professor Whitelaw is only looking at half of the equation necessary to make an appropriate analysis of the pipeline's economic impact on the region. In his terminology, he is only looking at the "negative economic consequences" in terms of the alleged jobs lost and the resulting alleged loss of economic activity in the region from the proposed pipeline.

Professor Whitelaw appears to ignore any economic benefits associated with the proposed pipeline. These economic benefits include the cost savings associated with the pipeline that are likely to be passed on to consumers in the region.

R. Does Professor Whitelaw make any other errors in his analysis?

S. Yes. Professor Whitelaw is implicitly making the extreme and unreasonable assumption that there will be no offsetting factors to any employment loss at Tidewater that occurs as a result of the pipeline.

Q. Why is this an extreme assumption?

R. This is an extreme assumption in two respects. First, Olympic estimates that it will hire 8 – 10 employees to run the pipeline operations. Professor Whitelaw does not consider this. Second, not everyone who loses his or her job at Tidewater is permanently unemployed. People do find alternative employment opportunities. For example, based upon government statistics, the average duration of unemployment in Washington is about 12 weeks. Professor Whitelaw implicitly assumes that all terminated Tidewater employees remain permanently unemployed, which is an extreme and unsupportable assumption.

Unemployment in the State of Washington as of January 1999 was 4.7 percent. In Clark County, where Tidewater alleges over two-thirds of its job losses will take place, the unemployment rate in January 1999 was 4.6 percent.

Consequently, it is likely if current unemployment rate and unemployment duration statistics hold, the vast majority of Tidewater employees will be able to find alternative employment.

R. Have you done an analysis to correct for Professor Whitelaw's errors?

S. Yes. One way to depict corrections to Professor Whitelaw's errors is contained in Exhibit PwC - 22. The first bar in the chart represents Professor Whitelaw's estimate of the total negative economic impact on the region from the construction of the pipeline. Professor Whitelaw estimates a loss of income of $11.2 million based upon the assumption that 89 employees at an average salary of over $63,500 are terminated from Tidewater as a result of the construction and use of the pipeline.

Q. Is this where Professor Whitelaw's analysis ends?

A. Yes. It implicitly assumes that none of the individuals who lose their jobs will find alternative employment in the region. It also implicitly assumes no offsetting economic gains. However, Olympic plans to hire 8 – 10 employees to perform maintenance activities on the pipeline, at a salary equivalent to the average salary of the terminated Tidewater employees. Hence, Professor Whitelaw's figures are already overstated by 10 percent, even if the 89 workers were not able to find alternative employment.

Additionally, based upon our unemployment duration analysis and our unemployment rate analysis, it is likely that 84 of the alleged displaced 89 Tidewater employees will find alternative employment.

Consequently, the second bar in Exhibit PwC - 22 represents the mitigating and offsetting income from the jobs Olympic plans to fill when the pipeline is built and from the alternative jobs the displaced Tidewater employees will be able to find. This offsetting income totals $11.4 million, if the ex-Tidewater employees are able to find alternative employment at roughly the same salary levels.[1]

Q. What assumptions did you make in developing this offsetting or mitigating income?

A. We assumed Olympic will hire 9 employees with a total payroll of $567,000 relating to these employees. This payroll information was obtained from the general manager of operations at Olympic Pipeline. We also estimated that 84 of the Tidewater employees will find alternative employment at a salary level equal to their current earnings assumed by Professor Whitelaw. We then applied the same economic impact multiplier effects as Professor Whitelaw.

Q. Apart from additional new jobs related to maintenance of the pipeline, are there any other economic benefits from the proposed pipeline?

A. Yes, there are expected lower petroleum transportation costs from the proposed pipeline. In other testimony related to this matter, Professor Keith Leffler has stated that the proposed pipeline is likely to reduce the transportation costs of petroleum products in the area by $16 million per year. Clearly, some of these saved transportation costs will be passed on to consumers in the form of lower petroleum prices. If only half are passed on to consumers, this is another $8 million economic gain from the construction of the pipeline. This is depicted as the third bar in Exhibit PwC - 22.[2]

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[1] *This is assuming the same economic impact multiplier effects as Professor Whitelaw.*

[2] *If savings in petroleum transportation costs are passed on to consumers in the form of lower prices, it is likely that consumers' real disposable income will increase. As consumers' real disposable income*

Q. What is your overall conclusion from this analysis?

A. If we take into account the offsetting effects that Professor Whitelaw ignores, we see there is a net economic gain. This analysis takes into account the effect of the displaced jobs as estimated by Professor Whitelaw, plus the effect of re-employment, additional hires, and lower petroleum-related prices, and is depicted as the fourth bar in Exhibit PwC - 22.

Q. Are there any other economic benefits from the proposed pipeline?

A. Yes. The analysis described so far does not take into account two other types of economic benefits from the pipeline. The first is the *temporary* increase in economic activity resulting from the construction of the pipeline. Our understanding is that the pipeline would be constructed over a period of about one year, would involve the hiring of 911 workers, and would have a total positive economic impact of approximately $20.5 million in the year of construction. This is represented by the fifth bar in Exhibit PwC - 22. A second economic benefit is the permanent benefit of increased reliability of petroleum distribution, which is hard to measure in terms of dollars but which is qualitatively important.

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increases, consumption of goods and services (i.e. , spending) will increase. This tends to support our view that Professor Whitelaw has overestimated the negative economic consequences of the proposed pipeline.

Q. Have you performed any sensitivity analyses related to your conclusions?

A. Yes. We have employed some alternative assumptions which are more conservative than those used in Exhibit PwC - 22. These are depicted in Exhibit PwC - 23. In this exhibit, we assume that only 75 percent of the terminated Tidewater workers find new jobs. In other words, we assume that one quarter of the terminated Tidewater workers ***never*** find alternative employment in the region. In addition, we assume that those workers that do get rehired receive the average salary of the county in which they worked, which is substantially less than their previous salary at Tidewater. Even using these more conservative assumptions, the analysis indicates that the overall economic impact of the pipeline is positive, not negative as Professor Whitelaw suggests.

Q. Can you summarize your testimony for the Council?

A. Professor Whitelaw has offered a number of opinions in his testimony regarding the impacts of the proposed pipeline that can not be reasonably supported by the amount of information he reviewed and the analysis he performed. Professor Whitelaw clearly did not review or independently verify any information provided to him by Tidewater but just accepted Tidewater's representations. Additionally, Professor Whitelaw makes extreme assumptions by assuming the terminated workers will never be re-employed again. Professor Whitelaw makes conceptual errors by not looking at the economic benefits created by the pipeline. If Professor Whitelaw had not made these errors, he would have reached the conclusion that the construction of the pipeline creates a net economic gain to the region. Of course, there will be impacts on certain individuals and on the dominant status Tidewater has enjoyed in petroleum barging on the Columbia and Snake Rivers since 1987, but those losses are more than offset by the positive economic benefits the pipeline will bring to the affected regions and the State of Washington.

This concludes our testimony.

Dated this 23[h] day of March, 1999

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Louis C. DeArias

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Keith R. Ugone