

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,
Complainant,
v.
PUGET SOUND PILOTS,
Respondent.**

Docket TP-

**TESTIMONY OF
JESSICA J. NORRIS
ON BEHALF OF PUGET SOUND PILOTS**

JUNE 29, 2022

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1 **I. IDENTIFICATION OF WITNESS**

2
3 **Q: Please state your name, occupation, and business address.**

4 A: My name is Jessica Norris. I have been a licensed CPA in Washington since 2006. My
5 business address is Shannon & Associates, LLP, 1851 Central Pl. S., Suite 225, Kent, WA
6 98030.

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8
9 **Q: Please describe your relationship with the Puget Sound Pilots (“PSP”).**

10 A: I have served as PSP's lead auditor in the preparation of the Association's audited
11 financial statements. I supervise the accounting team at Shannon & Associates that audits
12 PSP's statements of assets, liabilities and pilot equity and the organization's revenues,
13 expenses and changes in pilot equity and cash flows. On an annual basis, I participate in the
14 presentation of PSP's audited financial statements to the Washington Board of Pilotage
15 Commissioners.

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17 **II. PURPOSE OF TESTIMONY.**

18 **Q: What is the purpose of your testimony?**

19 A: My testimony describes the modified accrual basis of the PSP financial statements. I will
20 also explain the implementation of the changes required by Order 09, issued by the UTC , on
21 November 25, 2020. Each of those changes was a material development that is addressed in
22 footnotes to the 2021 audited financial statement that I will describe in my testimony. In
23 addition, I provide comments on the fluctuating character of PSP's annual revenue and expenses,
24 which support PSP's proposal that the UTC approve several automatic adjusters to the tariff
25 funding the Puget Sound Pilotage District.

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Q: Please describe the modified accrual basis of accounting used to prepare PSP's 2021 audited financial statement.

A: The modified accrual basis of accounting used by PSP is the traditional and typical accounting method used by most pilot groups in the United States. It is not a full accrual accounting based upon Generally Accepted Accounting Principles or GAAP. Instead, PSP's revenue is recorded on an accrual basis – as it is earned. For example, for a pilot group like PSP, revenue is accrued on the day the pilotage assignment is completed. Expenses, however, are generally recorded when actually paid and not necessarily accrued in the period in which the expense is incurred. Depreciation is accounted for on a straight-line basis over the estimated useful life of assets such as the pilot boats owned by PSP and capitalized in line with the PSP capitalization policy.

Q: Did your firm prepare an audited financial statement for calendar years 2020 and 2021 for the Puget Sound Pilots?

A: Yes. Exhibit JJN-02 is our audited Special-Purpose Financial Statements and Supplementary Information for the Puget Sound Pilots for the years ending December 31, 2021, and 2020.

Q: Please describe the material developments arising from the UTC Final Order that necessitated footnotes to the 2020 and 2021 Special-Purpose Financial Statements for PSP.

1 A: There were two material developments from the final order: one to implement the
2 UTC directive to PSP to use full accrual method accounting to record callback day liabilities
3 and a second regarding a contingent liability related to tariff charges to a particular customer.
4

5 **Q: Please describe each of these footnotes.**

6 A: I believe the best way to relate the substance of each footnote is to reproduce the text
7 of both footnotes, which are set out below:

8 Note 4. – Funded Callback Days
9

10 The Utilities and Transportation Commission ordered PSP to use full accrual method
11 accounting to record callback day liabilities. The value of a callback day will be adjusted
12 annually as of May 1 of each year. As of May 1, 2021, the organization began funding
13 all new callback days at a rate of \$1,198 per callback day worked. As callback days are
14 earned by pilots a liability is recorded and offsetting expense to the pilots. As callback
15 days are used, the liability is reduced and the expense to pilots is reduced. As of May 1,
2021, all callback days that were previously outstanding were considered unfunded and
treated the same way they have been historically (see Note 12). As of May 1, 2021,
Pilots use callback days on a last in first out basis. As of December 31, 2021, there were
327 funded days and 2,429 unfunded days outstanding.

16 Note 14. – Contingent Liability

17 On November 25, 2020, the Washington Utilities and Transportation Commission
18 (“WUTC”) entered Order 9 establishing new tariff rates authorizing the Puget Sound
19 Pilots (“PSP”) to collect revenues for pilotage based on a piloted vessel’s international
20 gross tonnage regardless of whether the vessel is engaged in international or exclusively
21 coastwise commerce. The new tariff rates became effective on January 25, 2021. In
22 reliance on Order 9, PSP collected revenue for services provided in 2021 to vessels
23 owned by TOTE Maritime Alaska, LLC (“TOTE”). On August 26, 2021, TOTE filed a
24 petition to amend Order 9 to amend PSP’s tariff to establish a lower pilotage fee for
25 TOTE vessels based on registered gross tonnage. On February 24, 2022, the WUTC
26 entered Order 13 requiring PSP create a deferral account retroactive to August 26, 2021
for the incremental difference between the amounts actually charged to TOTE vessels
and rates based on registered gross tonnage. As a result, PSP has reserved funds totaling
\$124,239 as a contingent liability for 2021 that will be resolved in PSP’s next general rate
case before the WUTC. PSP intends to file its rate case in 2022 and that case likely will
be concluded in 2023.

1 **Q: Each year, once the PSP audit is completed by your accounting firm, do you**
2 **submit a copy of the financial statement to the Board of Pilot Commissioners and then**
3 **make a presentation to the BPC regarding the audit and respond to questions?**

4 A: Yes. Exhibit JJN-03 is the PowerPoint presentation that I made to the Board of Pilot
5 Commissioners on May 19, 2022.

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8 **Q: With respect to your presentation in May 2022 to the Board of Pilot Commissioners,**
9 **did you provide comments on what you consider to be the highlights of PSP's financial**
10 **performance in 2020 and 2021?**

11 A: Yes. On pages nine through 12 of Exhibit JJN-03, I use a series of charts to present
12 historic information over five calendar years (2017-2021) regarding PSP's total revenue,
13 operating expenses, expenses as a percentage of revenue and comparative operating expenses.

14
15 With respect to total revenues, 2017 through 2019 was fairly consistent, ranging from
16 \$32.8 million in 2017 to very close to \$34 million in 2018 and 2019, specifically \$33.99 million
17 in 2018 and \$33.7 million in 2019. In 2020 and 2021, however, PSP's total revenues declined
18 significantly. In the Covid-impacted year of 2020, revenues totaled \$25.5 million and in 2021
19 rebounded to a level below the revenue requirement assumed in the tariff to \$31.95 million.

20
21 During the period of 2017 through 2021, operating expenses have increased substantially,
22 moving from a level below \$12.5 million in both 2017 and 2018 to \$14.26 million in 2019,
23 \$13.91 million in 2020 and increasing substantially to \$16.06 million in 2021. As a result, PSP's
24 total operating expenses as a percentage of revenue have increased from a range of 36.7% to
25 37.4% in 2017-2018 to 42.3% in 2019 and then up dramatically to 54.6% in 2020 and 50.3% in
26 2021. As a result of the revenue shortfalls in 2020 and 2021 and the significant and increasing

1 level of operating expenses, net income per pilot fell substantially in 2020 and 2021 to \$204,580
2 and \$295,616, respectively. These net income levels are displayed on the chart that is page 15 of
3 Exhibit JJN-03.

4 When one analyzes and compares components of the PSP operating expenses, two
5 categories of expense show significant fluctuations. First, annual retirement expenses, which are
6 the pension payments made to PSP retirees, have steadily increased over this five-year period
7 from 12.6% of total revenue in 2017 to 20.4% and 17.3% in 2020 and 2021, respectively. Pilot
8 boat expenses have also seen significant fluctuation in this period, rising from a range of 4.9% to
9 5% in 2017 and 2018 to 5.7%, 7.6% and 6.5% in 2019, 2020 and 2021, respectively.

10 I understand that PSP is proposing that the UTC approve several automatic adjusters to
11 the tariff on an annual or quarterly basis to make certain that the revenue requirement assumed in
12 the tariff is actually collected. Based on my years of experience with PSP and, especially in light
13 of the fluctuations experienced both in revenue and various cost categories over the last few
14 years, I wholeheartedly support the use of automatic adjusters to generate the funds necessary to
15 support PSP's pilotage system. Doing so with a combination of quarterly and annual adjusters
16 will ensure that revenue is collected on a basis that comes close to meeting the assumptions in
17 the UTC's next rate order by accounting for both under-collection and over-collection of PSP
18 pilotage fees.
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21 **III. CONCLUSION.**

22 **Q: Does this conclude your testimony?**

23 **A: Yes.**
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