

**Exh. AMCL-1T
Docket TP-190976
Witness: Ann M. C. LaRue**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND PILOTS,

Respondent.

DOCKET TP-190976

TESTIMONY OF

Ann M. C. LaRue, CPA

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Result of Operations

May 27, 2020

TABLE OF CONTENTS

I. INTRODUCTION 1

II. SCOPE AND PURPOSE OF TESTIMONY 2

III. SUMMARY OF TESTIMONY 4

IV. DISCUSSION 5

V. ADJUSTMENTS 8

 A. Depreciation..... 8

 B. Transportation Expense 10

 C. Entertainment and Travel 12

 D. Legal Expenses 14

 E. Consulting Fees 17

VI. SUMMARY 21

LIST OF EXHIBITS

Exh. AMCL-2	Results of Operations
Exh. AMCL-3	Depreciation Expense Adjustment
Exh. AMCL-4	Transportation Expense Adjustment
Exh. AMCL-5	Entertainment and Travel Expense Adjustment
Exh. AMCL-6	Legal Expense Adjustments
Exh. AMCL-7	Consulting Fee Adjustments
Exh. AMCL-8	PSP's Sponsorships and Promotions workpaper
Exh. AMCL-9	PSP's Legal Cost Summary workpaper
Exh. AMCL-10	PSP's Response to UTC Staff Data Request No. 41
Exh. AMCL-11	PSP's Response to UTC Staff Data Request No. 43
Exh. AMCL-12	PSP's Regulatory Depreciation Schedule
Exh. AMCL-13	PSP's Response to UTC Staff Data Request No. 50
Exh. AMCL-14	PSP's Response to UTC Staff Data Request No. 61

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Ann M. C. LaRue, and my business address is 621 Woodland Square
5 Loop SE, Lacey, Washington 98503. My business mailing address is P.O. Box
6 47250, Olympia, Washington 98504-7250. My business email address is
7 ann.larue@utc.wa.gov.

8

9 **Q. By whom are you employed and in what capacity?**

10 A. I am employed by the Washington Utilities and Transportation Commission
11 (Commission) as an Accounting Policy Specialist in the Water and Transportation
12 Section.

13

14 **Q. How long have you been employed by the Commission?**

15 A. I have worked in the Regulatory Services Division at the Commission for almost 11
16 years. From 2007 to 2011, I worked as a regulatory analyst in the Energy Section.
17 Since 2013, I've worked in the Water and Transportation Section.

18

19 **Q. Please state your qualifications to provide testimony in this proceeding.**

20 A. I graduated from Sam Houston State University in Huntsville, Texas with a Bachelor
21 of Business Administration (BBA) in Accounting in 1998 and a Masters of Business
22 Administration (MBA) in 1999. I am licensed in Washington State as a Certified
23 Public Accountant (CPA).

1 I attended the 49th Annual National Association of Regulatory Utility
2 Commissioners (NARUC) Regulatory Studies Program held at Michigan State
3 University in East Lansing, Michigan in 2007. I also attended the 29th Annual
4 NARUC Western Rate School in San Diego, California in 2008.

5
6 **Q. Have you testified previously before the Commission?**

7 A. I have provided written testimony for several energy cases for the Commission and I
8 have verbally testified in two cases.

9
10 **II. SCOPE AND PURPOSE OF TESTIMONY**

11
12 **Q. What is the scope and purpose of your testimony?**

13 A. My testimony and exhibits reflect the results of Staff's analysis of Puget Sound
14 Pilots' ("PSP" or "Pilots") test year results of operations. Staff's results reflect its
15 restating adjustments and pro forma, known and measurable changes. Adjustments
16 and analyses of other Staff witnesses are incorporated into my results of operations.

17 Additionally, my testimony identifies five of PSP's proposed adjustments
18 that are contested by Staff. These adjustments include depreciation, transportation
19 expense, entertainment and travel, legal expenses, and consulting fees. These five
20 accounts contained adjustments proposed by Mr. Weldon Burton in his direct
21 testimony,¹ and are as follows:

22 R-10 Restating Depreciation;

¹ Burton, Exh. WTB-1T.

1 R-17 Restating Transportation Expense;
2 R-18 Entertainment and Travel;
3 R-19 Restating Attorney Fees;
4 PF-1 Pro Forma Attorney Fees;
5 PF-2 Pro Forma Attorney Fees;
6 PF-3 Pro Forma Consulting Fees.

7

8 **Q. Please summarize your recommendation.**

9 A. I recommend a revenue requirement increase of \$2,705,242, based on the modified
10 historical test year approach.

11

12 **Q. Have you prepared any exhibits in support of your testimony?**

13 A. Yes. I prepared Exhibits AMCL-2 through AMCL-14. Exhibit AMCL-2, which is a
14 multipage exhibit, shows PSP's operating results. Included in this exhibit are:

- 15 • Results of Operation (Schedule 1.1);
- 16 • Restating Adjustments (Schedule 1.2);
- 17 • Pro Forma Adjustments (Schedule 1.3);
- 18 • Depreciation Analysis (Schedule 1.4).

19 I have also prepared the following exhibits in support of my calculations and
20 adjustments:

- 21 • Exh. AMCL-3, Depreciation Expense Adjustment;
- 22 • Exh. AMCL-4, Transportation Expense Adjustment;
- 23 • Exh. AMCL-5, Entertainment and Travel Adjustment;

- 1 • Exh. AMCL-6, Legal Expense Adjustments;
- 2 • Exh. AMCL-7, Consulting Fees Adjustments;
- 3 • Exh. AMCL-8, PSP’s Sponsorships and Promotions workpaper;
- 4 • Exh. AMCL-9, PSP’s Legal Cost Summary workpaper;
- 5 • Exh. AMCL-10, PSP’s Response to UTC Staff Data Request No. 41;
- 6 • Exh. AMCL-11, PSP’s Response to UTC Staff Data Request No. 43;
- 7 • Exh. AMCL-12, PSP’s Regulatory Depreciation Schedule
- 8 • Exh. AMCL-13, PSP’s Response to UTC Staff Data Request No. 50;
- 9 • Exh. AMCL-14, PSP’s Response to UTC Staff Data Request No. 61.

10

11

III. SUMMARY OF TESTIMONY

12

13 **Q. Please summarize PSP’s requested revenue increase.**

14 A. PSP initially calculated a total revenue requirement of \$48,027,598.² This is an
 15 increase of \$13,917,658, or 40.8 percent, over test year revenue. However, in order
 16 to mitigate the rate shock of such an increase in revenue, PSP has proposed to phase
 17 in its revenue requirement over a three-year period as follows:³

	Revenue Requirement	Increase	% Increase	
Year 1	\$43,112,701	\$9,002,761	26.4%	Rate Year
Year 2	\$46,625,286	\$3,512,585	8.1%	Over Year 1
Year 3	\$47,718,001	\$1,092,715	2.3%	Over Year 2

18

² Burton, Exh. WTB-1T at 14:9.

³ *Id.* at 14:9-18.

1 **Q. Please summarize Staff's analysis of PSP's revenue requirement.**

2 A. Staff determined that the requested revenue requirement was excessive. Mr. Burton
3 states that the revenue generated at the Pilots' proposed rates, for the first year, is
4 approximately \$43,000,000, and the Total Distributable Net Income (TDNI) is
5 approximately \$27,000,000. Staff's analysis, however, shows the total revenue
6 requirement to be \$36,815,182, with a TDNI of \$21,700,741. Furthermore, and as
7 discussed by Mr. Sevall, Staff determined that the resulting increase to rates under
8 Staff's analysis is not so severe as to merit a rate plan to mitigate rate shock to
9 ratepayers.

10

11

IV. DISCUSSION

12

13 **Q. Will you please identify the areas that you will discuss in your testimony**
14 **regarding results of operation?**

15 A. I testify to Staff's recommended revenue requirement for PSP's operations, as shown
16 in Exhibit AMCL-2, Results of Operations. This exhibit shows actual and pro forma
17 results of operations along with the impact of Staff's revenue requirement. I also
18 prepared additional schedules (Schedule 1.2, 1.3, and 1.4) within this exhibit that
19 provide support for the results. In addition to my adjustments, results of calculations
20 from other Staff witnesses are incorporated into this exhibit.

21

22 **Q. What specific adjustments are you responsible for?**

23 A. I am responsible for the following adjustments:

24

- Depreciation, R-10;

- 1 • Transportation Expense, R-17;
- 2 • Entertainment and Travel, R-18;
- 3 • Legal Expenses, R-19, R-20, PF-1, PF-2, PF17, and PF-18;
- 4 • Consulting Fees, R-21, PF-3, PF-19, and PF-20.

5

6 **Q. Please explain the difference between a restating adjustment and a pro forma**
7 **adjustment.**

8 A. Restating actual adjustments (restating adjustments) are those adjustments that adjust
9 the booked operating results for any defects or infirmities that may exist in actual
10 recorded results, which can distort test period earnings. Restating actual adjustments
11 are also used to adjust from an “as recorded” basis to a level which is acceptable for
12 ratemaking. Pro forma adjustments are those adjustments that give effect for the test
13 period to all known and measurable changes that are not offset by other factors.⁴

14

15 **Q. Please describe the issues and specific adjustments that other Staff witnesses are**
16 **providing testimony for, in this case.**

17 A. Danny Kermode will give an overview of the regulatory principles and methods that
18 Staff used to arrive at its recommendations. He will also testify regarding call backs
19 and the PSP pension plan, and Staff’s position on the proper regulatory and
20 accounting treatment of both. Scott Sevall will discuss the Distributable Net Income
21 (DNI) due to pilots, the number of pilots to fund, the rate plan proposed by PSP, and
22 Staff’s response to the proposed rate design.

⁴ WAC 480-160-020.

1 **Q. Please give a brief overview of your Exhibit AMCL-2, entitled *Puget Sound***
2 ***Pilots, Results of Operation, 12 Months Ended June 30, 2019.***

3 A. Exhibit AMCL-2 is a four-worksheet exhibit showing Staff’s analysis of PSP’s
4 results of operations for the test year ended June 30, 2019. Page one of this exhibit,
5 labeled Schedule 1.1, Results of Operations, has eight columns.

6 Column (a), titled *Description*, contains the account descriptions. The
7 amounts shown in column (b) are the “per books” account balances. The amounts
8 reflected in this column are the same as column (c) of PSP’s witness Mr. Weldon
9 Burton’s Exhibit WTB-03.

10 Column (c) of my exhibit reflects Staff’s total restating adjustments; these
11 amounts are taken from column (b) of Schedule 1.2, Restating Adjustments (Exhibit
12 AMCL-2).

13 Column (d), titled *Restated Results*, reflects the results of operations for the
14 test year affected by the restating adjustments.

15 Column (e), reflects Staff’s total pro forma adjustments; these amounts are
16 taken from column (b) of Schedule 1.3, Pro Forma Adjustments (Exhibit AMCL-2).

17 Column (f), titled *Pro Forma Results*, shows the adjusted restated results
18 affected by known and measurable changes on a pro forma basis.

19 Column (g), titled *Staff Proposed*, reflects the revenue and tax expense
20 impact at the Staff’s proposed revenue requirement.

21 Column (h), titled *Results at Staff Rates*, shows the results of all Staff
22 adjustments including the revenue and tax expense impact at Staff’s proposed
23 revenue requirement.

1 Finally, the last worksheet, Schedule 1.4 (Exhibit AMCL-2) details Staff's
2 depreciation analysis.

3
4 **V. ADJUSTMENTS**

5
6 **A. Depreciation**

7
8 **Q. Please summarize PSP's adjustment R-10 to depreciation.**

9 A. PSP's adjustment to depreciation expense restates the expense to reflect proposed
10 regulatory lives for vessels and capitalized repairs incurred in prior periods.⁵ PSP
11 makes a single restating adjustment to reflect these changes in the amount of
12 \$442,879, resulting in an increased test year depreciation expense of \$599,080.

13
14 **Q. Did you review this adjustment?**

15 A. Yes.

16
17 **Q. Is Staff contesting this adjustment?**

18 A. Yes.

19
20 **Q. Please explain your rationale for contesting PSP's proposed depreciation
21 adjustment.**

⁵ Burton, Exh. WTB-1T at 8:20-21.

1 A. Staff understands the depreciation expense adjustment made by Mr. Burton,
2 however, several assets included in PSP's depreciation schedule will be fully
3 depreciated by the rate year. In addition, Staff disagrees with the depreciable lives of
4 the two engine rebuilds done on the two pilot boats, as well as the treatment of the
5 depreciation for the pilot boat that is still being depreciated. I will address each of
6 these individually.

7 Of the 29 depreciable assets on the Pilots' depreciation schedule, nine of
8 those assets were fully depreciated in 2018 or 2019 and therefore have been removed
9 from the depreciation schedule.⁶

10 Two assets, (1) the rebuild of engine and running gear, and (2) the new
11 engine, jet drives and improvements, are engine rebuilds for the two pilot boats
12 located at Port Angeles. During Staff's audit, we found that the Pilots actually
13 rebuild the engines for the pilot boats every 7,500 hours, or approximately every four
14 years.⁷ Therefore, while Mr. Burton used a depreciable life of seven years for the
15 engines, Staff believes that four years is more appropriate based on the practice in
16 place at the time of this audit.⁸

17 Finally, the two pilot boats, which PSP owns, are located at the pilot station
18 in Port Angeles. These two assets account for \$342,650 of the Pilots' proposed test-
19 year depreciation expense. During this audit, Staff had the opportunity to discuss
20 with the Pilots and their representatives the pilot boat costs and the current market
21 value of each boat. While both boats are about 20 years old, they are still operating

⁶ LaRue, Exh. AMCL-2, Sch. 1.4; LaRue, Exh. AMCL-3, Table 2.

⁷ LaRue, Exh. AMCL-3, Table 3.

⁸ LaRue, Exh. AMCL-2, Sch. 1.4.

1 and the market values remain equal to the asset costs. It is my understanding that
2 PSP is planning to replace both boats in about four years. Since the pilot boat, the
3 *Puget Sound*, was fully depreciated in 2019, this boat has been removed from the
4 depreciation schedule. However, for the other boat, the *Juan de Fuca*, listed on the
5 depreciation schedule as *Launch*, Staff took a “remaining life” approach for the
6 depreciation of this vessel. Staff subtracted the beginning accumulated depreciation
7 balance from the original asset cost, leaving a revised asset cost of \$322,034. Staff
8 proposes depreciating the remaining cost over four years, which is the timeframe in
9 which the Pilots indicated they would replace the *Juan de Fuca*.⁹

10
11 **B. Transportation Expense**

12
13 **Q. Please summarize the Pilots’ adjustment to its transportation expense.**

14 A. PSP made one restating adjustment (R-17) to transportation expense of \$156,809.
15 Mr. Burton states that PSP revised its transportation reimbursement program during
16 the test period as the result of a pilot program to determine average travel costs to
17 locations around Puget Sound.¹⁰

18
19 **Q. Did you review PSP’s transportation expense adjustment?**

20 A. Yes.
21

⁹ LaRue, Exh. AMCL-2, Sch. 1.4; LaRue, Exh. AMCL-3, Table 4.

¹⁰ Burton, Exh. WTB-1T at 9:7-8.

1 **Q. Is Staff contesting this adjustment?**

2 A. Yes.

3

4 **Q. Please explain your rationale for contesting Mr. Burton's proposed**
5 **transportation expense adjustment.**

6 A. Staff contests the restating adjustment for transportation expense for several reasons.

7 As an initial issue, a proper restating adjustment is limited to adjusting operating

8 results for any mistakes in actual recorded results of operations that can distort test

9 period earnings or to adjust results to a regulatory basis.¹¹ Mr. Burton's adjustment

10 makes a change to the per books amount based on a three-month "study" performed

11 by the Pilots during the test period. The adjustment does not appear to correct a

12 recording mistake, account for an out-of-period expense, or make a regulatory

13 accounting adjustment, and is therefore not a proper restating adjustment.

14 Additionally, PSP based its adjustment on a study with a three-month sample

15 size. A small-sample study of travel costs does not provide support for adjusting an

16 entire year of costs, as factoring in costs from other months may affect average

17 annual transportation costs. Instead Staff relies on the historical records as a fair

18 representation of the costs.

19 Furthermore, through responses to data requests, Staff determined that from

20 2015-2018, transportation expenses averaged \$255,475, ranging from \$235,423 to

21 \$272,163.¹² In contrast, for the test period, transportation expenses were over a

¹¹ See, e.g., WAC 480-07-520(4)(a)(i).

¹² LaRue, Exh. AMCL-13.

1 million dollars.¹³ Further examination showed that while the Port Angeles
2 transportation expenses for the test year were a little lower than previous years, the
3 Seattle transportation expense increased from previous years by more than 1,500
4 percent.¹⁴ However, a change in the accounting for pilot *transportation expense*
5 *charge* (TEC), absent from the Seattle expense in previous years, was included in
6 2019 in the amount of \$719,496.

7 PSP states that the totals for 2019 reflect a change in practices where
8 transportation expenses were paid directly to the pilot incurring the cost. PSP now
9 requires all travel-related revenues to be received by the association and then paid to
10 the pilots through the association accounting system.

11 Therefore, Staff recommends rejecting Mr. Burton's restating adjustment of
12 \$156,809 for transportation expenses.

13
14 **C. Entertainment and Travel**

15
16 **Q. Please summarize Mr. Burton's adjustment to entertainment and travel.**

17 A. PSP proposes, through Mr. Burton, a restating adjustment (R-18) to entertainment
18 and travel expense of \$31,995. Mr. Burton's exhibit indicates this adjustment is to
19 remove charitable organization events and sponsorships.¹⁵

20

¹³ LaRue, Exh. AMCL-4, Table 1.

¹⁴ LaRue, Exh. AMCL-4, Table 2.

¹⁵ Burton, Exh. WTB-03, Restating Entries at row 91.

1 **Q. Did you review PSP’s entertainment and travel expense adjustment?**

2 A. Yes.

3

4 **Q. Is Staff contesting this adjustment?**

5 A. Yes.

6

7 **Q. Please explain your rationale for contesting Mr. Burton’s proposed**
8 **entertainment and travel expense adjustment.**

9 A. While Staff agrees with Mr. Burton’s removal of charitable contributions,
10 sponsorships, and scholarships from this account through PSP’s restating adjustment,
11 Staff has determined that an additional adjustment is necessary. Found in PSP’s
12 workpaper labeled *Sponsorships and Promotions*, were several lines with the
13 description *Promo-Swag*, totaling \$4,324.¹⁶ During this audit, Staff asked about these
14 charges and were told that these items were “uniforms” for certain Pilot employees
15 to wear during specific times, such as when someone visits the pilot station in Port
16 Angeles. However, during the many times that Staff interacted with PSP and their
17 employees, few, if any, “uniforms” were observed. Also, historically, “swag” would
18 not be a ratepayer responsibility. In addition, common accounting practices would
19 expect uniforms to be expensed in the account “Uniforms.” Therefore, Staff
20 recommends a total adjustment of \$36,319 to account for the removal of these
21 unallowable expenses in addition to the items already removed by Mr. Burton.¹⁷

22

¹⁶ LaRue, Exh. AMCL-8; LaRue, Exh. AMCL-5, Table 2.

¹⁷ LaRue, Exh. AMCL-5, Table 1.

1 **D. Legal Expenses**

2

3 **Q. Please summarize PSP’s adjustment to its legal expenses (attorney fees).**

4 A. PSP proposed three adjustments for legal expenses. The restating adjustment (R-19),
5 adjusts for an out-of-period payment of \$42,998. The pro forma adjustment (PF-1) of
6 \$631,285 is for prospective attorney fees for this rate case and hearing. And the pro
7 forma adjustment (PF-2) of \$392,822 is a reduction to legal expense and amortizes
8 the adjusted attorney fees over a two-year period.

9

10 **Q. Did you review these adjustments?**

11 A. Yes.

12

13 **Q. Is Staff contesting these adjustments?**

14 A. Yes.

15

16 **Q. Please explain your rationale for contesting the Pilots’ proposed adjustments**
17 **for legal expenses.**

18 A. Staff requested additional information from PSP regarding legal expenses.
19 Workpapers and data request responses illustrate that total legal expenses incurred
20 during, and subsequent to, the test period are \$1,069,027.¹⁸ Of that amount,
21 \$785,645¹⁹ was specifically in preparation and execution of this rate case.²⁰ The

¹⁸ LaRue, Exh. AMCL-9.

¹⁹ LaRue, Exh. AMCL-6, Table 2.

²⁰ LaRue, Exh. AMCL-9.

1 remainder of \$283,382 was for “general legal.” In response to one of Staff’s data
2 requests, PSP stated that legal expenses for the last five years ranged from \$51,605
3 in 2015 to \$246,770 in 2018.²¹

4 When analyzing rate case expenses, Staff attempts to normalize expenses that
5 are atypical. Staff believes that these considerable legal expenses are atypical and
6 through Staff’s proposed adjustments, attempts to normalize these expenses.

7 Staff proposes two changes to the legal expenses for this case. First, since
8 general legal expenses of \$283,382 can be identified and are in line with previous
9 years, Staff proposes allowing this amount for the legal expense for the test period,
10 resulting in a restating adjustment (R-20), reducing the per books legal expenses by
11 \$111,362.²²

12 Second, because the balance of the legal expenses of \$785,645 is exclusive to
13 the preparation and execution of this rate case, and appears to be an anomalous legal
14 cost, I propose to amortize that expense over two separate and distinct periods.

15
16 **Q. Please explain your rationale for recommending the amortization of the**
17 **ratemaking legal costs over two different periods.**

18 A. Since this is the first-ever Commission rate case for PSP, many of these expenses are
19 foundational, with PSP benefiting from these expenses for many years to come.

20 Therefore, Staff proposes amortizing half of the rate-case-specific legal expenses of
21 \$785,645, over a three-year period as intermediate legal expenses, and amortizing the

²¹ LaRue, Exh. AMCL-10.

²² LaRue, Exh. AMCL-6, Table 1; Staff adjustment R-20.

1 other half over a seven-year period as foundational legal expenses, resulting in two
2 pro forma adjustments from Staff.

3
4 **Q. Why did you select half as the appropriate division of costs between**
5 **intermediate legal expenses and the more long-term foundational expense?**

6 A. Due to the large amount of legal expense, and without being able to review the
7 detailed, attorney/client privileged invoices to determine the exact amount that can
8 be attributed to intermediate and foundational expenses, Staff believes it was
9 reasonable and practical to use half of those costs for intermediate legal expenses and
10 half for foundational legal expenses.²³

11
12 **Q. Please explain why you selected a three year period for the intermediate legal**
13 **expenses and seven years for the foundational legal expenses.**

14 A. As stated previously, in rate cases for all Commission-regulated industries, Staff
15 attempts to normalize expenses incurred within and outside the test period, providing
16 a fair representation of costs from year to year. However, since this is the first-ever
17 rate case submitted to the Commission by the Pilots, Staff has no clear benchmark as
18 to what a “normal” expense should be. Given that PSP’s rate case contained a three-
19 year rate plan and Mr. Burton proposed to amortize other rate case-specific costs,
20 such as *UTC Fees*, over three years, Staff believes that three years is a reasonable
21 normalization period for these intermediate legal expenses. Therefore, for the

²³ LaRue, Exh. AMCL-6, Table 3.

1 intermediate legal expenses, Staff proposes an adjustment (PF-17) of \$130,941,
2 reflecting a three-year amortization period.²⁴

3
4 **Q. Please explain why you selected a seven year period for the foundational legal**
5 **costs.**

6 A. There is no doubt that much of the legal work done for this case will benefit the
7 Pilots for years to come. And because these legal expenses are both substantial and
8 atypical rate case expenses, Staff has chosen a seven-year amortization period as a
9 reasonable period for the recovery of these foundational legal expenses. An
10 argument could be made for a longer period. For example, U.S. generally accepted
11 accounting principles (GAAP) allows no amortization, and the Internal Revenue
12 Code provides a 15-year period. However, Staff believes seven years is reasonable
13 and therefore, for the foundational legal expenses, Staff proposes an amortization
14 adjustment (PF-18) to legal expenses of \$56,118, for seven years.²⁵

15
16 **E. Consulting Fees**

17
18 **Q. Please summarize PSP's adjustment to its consulting fees.**

19 A. PSP proposed one adjustment for consulting fees. The pro forma adjustment (PF-3)
20 of \$69,963 is a reduction to consulting fees of \$139,926 incurred subsequent to the
21 test year, to amortize those additional fees over a two-year period.

22

²⁴ LaRue, Exh. AMCL-6, Table 4; Staff adjustment PF-17.

²⁵ LaRue, Exh. AMCL-6, Table 5; Staff adjustment PF-18.

1 **Q. Did you review PSP's consulting fees adjustment?**

2 A. Yes.

3

4 **Q. Is Staff contesting this adjustment?**

5 A. Yes.

6

7 **Q. Will Staff address consulting fees in two separate parts?**

8 A. Yes.

9

10 **Q. Why is that?**

11 A. There are two different issues affecting consulting fees in this rate case. One issue is
12 related to the expenses included in the test year consulting fees expense, and the
13 other issue is related to PSP's proposed amortization period for the consulting fees
14 incurred subsequent to the test year. Therefore, it is more appropriate to address
15 these two issues separately.

16

17 **Q. Please summarize Staff's first issue with regard to consulting fees.**

18 A. Consulting fees for the test year are \$142,229. Of that amount, \$47,748 is specific to
19 the preparation and execution of this rate case and includes items such as payments
20 to Tabler Consulting, LLC, Independent Actuaries, Inc., and Weldon Burton.²⁶ Also
21 included in the test year consulting fees is \$47,900 for a fatigue management study.
22 As mentioned previously, when analyzing expenses, Staff attempts to normalize

²⁶ LaRue, Exh. AMCL-11.

1 those that are atypical or non-recurring. Therefore, Staff proposes removing these
2 rate case-specific expenses and the cost of the fatigue management study from the
3 test period and allocating these expenses analogous to the legal expenses. Staff's
4 restating adjustment (R-21) removes these two costs, totaling \$95,648, from the test
5 period consulting fees.²⁷ Staff further proposes that these removed costs be
6 amortized in a similar manner as the legal expenses discussed above.

7
8 **Q. Please summarize Staff's second issue with regard to consulting fees.**

9 A. Staff also disagrees with PSP's pro forma adjustment (PF-3) of \$69,963 to record
10 consulting fees for continual organization for the rate filing.²⁸

11
12 **Q. Please explain your rationale for contesting the Pilots' proposed consulting fee
13 adjustment.**

14 A. PSP incurred \$139,926 in consulting fee expenses subsequent to the test year. And
15 through Mr. Burton's pro forma adjustment, PSP proposes amortizing these expenses
16 over two years. Staff contests the pro forma adjustment (PF-3) made by Mr. Burton
17 for consulting fees for two reasons. First, Staff proposes to include the two amounts
18 identified previously for Staff adjustment R-21, totaling \$95,648, in the amount to be
19 amortized, bringing the total to be amortized to \$235,574.²⁹ Second, given that the
20 costs are atypical, Staff suggests that the consulting fees be amortized in a similar
21 manner to the legal expenses described above. More specifically, Staff proposes

²⁷ LaRue, Exh. AMCL-7, Table 1; Staff adjustment R-21.

²⁸ Burton, Exh. WTB-03, Pro Forma Entries at row 17.

²⁹ LaRue, Exh. AMCL-7, Table 2.

1 amortizing half of the \$235,575 rate case-specific consulting fees over a three-year
2 period, and amortizing the other half of these rate case-specific consulting fees over
3 a seven-year period, resulting in two pro forma adjustments from Staff.

4
5 **Q. Why did you select half as the appropriate division of fees between intermediate**
6 **consulting fees and the more long-term foundational consulting fees?**

7 A. Again, as with legal expenses, due to the significant amount of consulting fees and
8 the difficulty in classifying them, Staff believed it was reasonable and practical to
9 consider half of those expenses as intermediate consulting fees and half of those
10 expenses as foundational consulting fees.³⁰

11
12 **Q. Please explain why you selected a three-year period for half of the consulting**
13 **fees and seven years for the foundational consulting fees?**

14 A. As explained above for legal expenses, Staff attempts to normalize expenses incurred
15 both within and outside the test period, to provide a fair representation of costs from
16 year to year. However, since this is the first-ever rate case submitted to the
17 Commission by the Pilots, Staff is not sure what a “normal” fee should be. Given
18 that PSP’s rate case contained a three-year rate plan and Mr. Burton proposed to
19 amortize other rate case-specific costs, such as *UTC Fees*, over three years, Staff
20 believes that three years is a reasonable normalization period for these intermediate
21 consulting fees. Therefore, for the intermediate consulting fees, Staff proposes an
22 adjustment (PF-19) of \$39,263, for three years.³¹

³⁰ LaRue, Exh. AMCL-7, Table 3.

³¹ LaRue, Exh. AMCL-7, Table 4; Staff adjustment PF-19.

1 In addition, PSP’s recommended 61.6 pilots is 16 percent greater than Staff’s
 2 recommended 52.98 pilots, resulting in \$4.5 million in additional revenue. Finally,
 3 PSP’s proposed \$524,064 DNI is substantially higher than the Staff proposed DNI of
 4 \$409,608. This difference alone results in an excess of \$6 million of additional
 5 revenue requirement. However, Staff’s proposed DNI of \$409,608 is eight percent
 6 greater than the \$379,012 five-year average or 14.6 percent greater than the \$357,286
 7 test year amount.³⁴ A summary of changes in actual and proposed TDNI and DNI are
 8 shown in the table below:

	Test Year	-	PSP	Staff
TDNI	\$20,076,361		\$32,282,360	\$21,700,741
DNI	\$357,286	*	\$524,064	\$409,608

* DNI adjusted for call backs Sevall Exh. SS-2 (Sch 2.3)

9
 10

11 **Q. Does this conclude your testimony?**

12 A. Yes.

13
 14
 15
 16

³⁴ Sevall, Exh. SS-2, Sch. 2.3 at line 18.