Exh. MY-1T
Docket TP-220513
Witness: Mike Young

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND PILOTS,** **Respondent.**	**DOCKET TP-220513**

TESTIMONY OF

MIKE YOUNG

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Compensation Days, Medical and Pension, Consulting, Repairs, Rate Design

February 10, 2023

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LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Mike Young, and my business address is 621 Woodland Square Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250, Olympia, Washington, 98504-7250. My business email address is Mike.Young@utc.wa.gov.

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

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Senior Regulatory Advisor in the Telecom, Water and Solid Waste Section of the Regulatory Services Division.

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

A. I have been employed by the Commission since August 2000.

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

A. I have a Bachelor of Arts in Accounting from Western Washington University. I have worked for the commission for 21 years, the last 11 of those in the transportation section of the Regulatory Services Division, including as Section Manager and Assistant Director.

Q. Have you testified previously before the Commission?

A. Yes. I have provided testimony in several dockets concerning rate filings by auto transportation and commercial ferry companies, and have led numerous informal solid waste collection and water company rate filings.

II. SCOPE AND SUMMARY OF TESTIMONY

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

A. I offer on behalf of Staff some general thoughts about the case filed by Puget Sound Pilots (PSP or "the Pilots") and present Staff's recommendations regarding the Company's Call Back Expense, proposed automatic adjusters, pension plan and health insurance increases, consulting costs, pilot boat repair costs, and Staff's proposed revenue requirement and tariff rates.

Q. Please summarize Staff's recommendations.

A. Staff recommends:

- Removing $389,350 for Call Back Expense from the Results of Operations;
- Denying six of the seven proposed automatic adjusters, approving only the proposed Cost of Living Adjustment; and
- removing $902,438 of pro forma pension expense; and
- removing $240,778 of pro forma medical insurance, and including medical insurance premiums as part of the distributable net income calculation; and
- removing $117, 697 in consulting expense; and

- amortizing $125,316 in repair costs over five years.

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

A. Yes. I prepared Exhibits MY-1 through MY-10.

- Exh. MY-2 is PSP's responses to UTC Staff Data Request Nos. 26, 30, 33 and 38
- Exh. MY-3 is PSP's workpaper 220513-PSP-WP-IC-Projected 2023 Revenue and Assignments 06-29-22
- Exh. MY-4 is Staff Restating Adjustment R-2
- Exh. MY-5 is PSP's 202513-PSP-WP Automatic Tariff Adjuster Work Paper-07-14-22
- Exh. MY-6 is Staff Pro Forma Adjustment PF-8
- Exh. MY-7 is Staff Restating Adjustment R-16 Removing Tabler and RedCloud Expenses
- Exh. MY-8 is Staff Restating Adjustment R-19 Amortizing Juan de Fuca Repair Costs
- Exh. MY-9 is Staff Revenue Requirement Calculation and Comparison
- Exh. MY-10 is Staff Proposed Tariff Rates

III. DISCUSSION

A. Staff's Observations on PSP's Filing

Q. Does Staff have any comments it wishes to make about the rate case filed by the PSP?

A. Yes. PSP's filing appears to have been hastily prepared, with consequences that accord with the old adage that "haste makes waste."

Q. Please explain why Staff believes the Pilots rushed their initial filing?

A. PSP filed its GRC on June 29, 2022, seemingly with the hope of getting new tariff rates by February 1, 2023. That is also why they initially asked for an expedited process. Unfortunately, PSP was later compelled to supplement that initial filing, which included testimony from no fewer than 22 witnesses, to address problems in its case.

Q. What problems were those?

A. PSP generally did not support (as required by WAC 480-07-540) its request for increased rates.

Q. How so?

A. PSP submitted general ledger support for the 12 months of 2021, but then proposed "pro forma" adjustments for 2023 without providing any indication of what those adjustments were based on, or any of the calculations used. As discussed by Staff witness Simmons, a "budget" does not satisfy the known and measurable requirement used by the Commission in setting rates. And despite two rounds of testimony, the Pilots have presented almost nothing in the way of evidentiary support for the automatic tariff adjustments PSP seeks to include in its tariff.

Q. You mention a ledger for 2021 and pro forma adjustments for 2023. What problems does that create?

A. PSP relies on stale data. By the time it filed its rate case, six more months of actual expenditures and revenues had been booked for 2022. When PSP filed its supplemental testimony, it had nine months of data for 2022. Nevertheless, it did not provide most of that data in its filings, and when Staff repeatedly sought that data through DRs, PSP responded that its test year was calendar 2021 and that expenses for 2022 were out of the test year.[1] PSP therefore refused to provide the requested information.

Q. Does PSP's use of 2021 data create any other issues?

A. Yes. By Commission rule, the test year for a regulated entity should comprise the most recent 12 months for which data is available. PSP's use of 2021 data may violate the Commission's procedural rules.

[1] Exh. MY-2.

Q. Did PSP nevertheless use some 2022 data in its revenue requirement calculations?

A. Yes. Despite refusing to provide 2022 data to Staff on the basis that it was outside the test year, PSP used January 2022 expenses to calculate transportation costs,[2] and it used cruise ship revenue from January through June 2022 to totally replace the actual cruise ship revenue from 2021.[3]

Q. What did Staff do about its inability to obtain the information it sought?

A. Staff conducted its review of the information provided in this case. PSP bears the burden of justifying the rate increase it seeks here, and Staff cannot recommend that the Commission approve unsupported requests for rate relief. PSP's unwillingness to provide data hurts only itself.

Q. Does Staff have recommendations for future filings?

A. Yes. Staff recommends that in the future PSP file in accordance with the definitions in WAC 480-07 for test year, restating adjustment, and pro forma adjustment.

B. Call Back Expense

Q. What is a Call Back?

A. A call back is an instance when an off-duty pilot is asked to take a pilotage assignment.

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[2] Exh. MY-3.
[3] Exh. MY-3.

Q. Were Call Backs an issue in PSP's last general rate case, which the Commission docketed as TP-190976?

A. Yes. Relevant here, Staff witness Kermode testified that a call back does not generate any special or additional expenses, other than those normally incurred for any required ship movement.[4] The fact that a pilot was called back on a day off does not affect the nature of the expense from an accounting standpoint.

Q. Did the Commission address the treatment of call backs in its final order in Docket TP-190976?

A. Yes. The Commission determined that funding call back days in the revenue requirement would result in ratepayers being double charged.[5]

Q. Did PSP heed the Commission's recommendation?

A. No. Ms. Norris states in her testimony that, "As callback days are earned by pilots, a liability is recorded and an *offsetting expense* to the pilots."[6] Accordingly, the Puget Sound Pilots have proposed including an expense of $389,350 in account 50450-006.[7] This is inconsistent with the Commission's guidance. Including this amount as an expense increases the revenue requirement, which is counter to the directive in Order 09.

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[4] *Wash. Utils. & Transp. Comm'n v. Puget Sound Pilots*, Docket TP-190976, Kermode, DPK-1Tr at 14:10-12 (May 27, 2020) (hereinafter "Kermode").
[5] Docket TP-190976, Order 09.
[6] Norris, JJN-01T at 3:8-15.
[7] Exh. MY-4.

Q. How should call backs be accounted for?

A. Staff previously explained through witness Kermode that PSP should make an entry to reduce revenue and record a liability to get the value of call back days on Puget Sound Pilots financial statements.[8] However, upon reflection, Staff recommends a different approach here. Staff recommends viewing the value of a call back as an amount owed to one owner within PSP by the other owners, rather than as a liability of the organization, which is the Puget Sound Pilots Association. Thus, it should be accounted for in the equity section of the financial statements and addressed through the distributed net income disbursement process. Since that is outside the Commission's authority to set rates, Staff does not propose any specific accounting methodology.

Q. Was Staff mistaken then, when making its recommendation in PSP's last GRC?

A. No. Mr. Kermode's proposed transaction was for the modified cash basis then employed by PSP.[9] Accrual accounting would require revenue recognition when it is due and measurable, and not allow any reduction for cash owed or paid to owners. Mr. Kermode's analysis comports with the recommendation Staff makes here as he noted that:

> My analysis clearly shows that there is no obligation to fund call back liabilities, further than the amount already received for services. The liability was incurred, and the revenue earned, when the pilot accepted the call back assignment and the service was performed. Any remaining obligation is the obligation of PSP to one of its pilots.

[8] Kermode at 17:9-14.
[9] Kermode at 17:15.

> and should be "below the line," that is, outside of regulatory consideration.[10]

Q. Why does Staff now believe that accounting for Call Backs in the equity section of the financial statement is the appropriate treatment?

A. The amount in the revenue account should reflect the amounts received from customers for providing the services of ship movements for the fiscal period, and should match expenses incurred for those exact services. A debit to the Revenue account, as proposed by Mr. Kermode, understates the amount of revenue actually earned in the financial period. As Mr. Kermode pointed out, counting call back days as an expense double counts the cost of the ship movement. The customer is agnostic as to whether the movement is performed by a pilot on a "normal" workday, or a call back day. At the end of the fiscal period, revenues and expenses are closed out to the appropriate balance sheet accounts, which normally is Retained Earnings, which appears on the equity portion of the balance sheet. Also, a liability is an amount owed by an organization for services already received, but for which it has not paid.

Q. What consequences does Staff's recommendation have?

A. The Commission should remove the expense as proposed in Staff Adjustment R-2.[11] This has the effect of reducing the revenue requirement by $389,350.

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[10] Kermode at 19:3-7.
[11] Exh. MY-4

C. Automatic Adjusters

Q. PSP proposed several automatic adjusters; does Staff agree that they should be included in the tariff?

A. Yes and no. Staff believes the legislative intent was to allow for tariff adjustments that would avoid full adjudication for every change, no matter how slight. Staff, accordingly, believes that the rules allow for an automatic adjuster, and although the rules may not be clear on the process, these can and should be treated in a similar manner to banded rates for auto transportation companies. In those rules, the rate increases automatically every year on a certain date.

Q. Do you think that new tariff sheets would need to be filed by PSP?

A. Yes. Any change to a tariff must be on record as either a new or revised tariff, or a tariff supplement. It would be a simple mathematical calculation to rates, and submittal of revised tariff pages that could be allowed by the Commission on a certain date.

Q. What is PSP's first proposed automatic adjustment mechanism?

A. PSP proposes making yearly adjustments to tariff rates based on fluctuations in ship movements.[12]

[12] Exh. MY-5 at 1.

Q. How would the adjustment work?

A. PSP proposes that for each year, the percentage variation of actual number of ship movements compared to the projected number of ship movements used in this case be used to adjust tariff rates by the same percentage.[13]

Q. Does Staff have concerns with this proposal?

A. Yes, two of them.

Q. What is Staff's first concern?

A. The number of ship movements does not take into account the rate variation based on tonnage; simply adjusting rates based on the number of ship movements without regard to size may not account for the actual revenue deficiency or excess. The proposal requires a comparison of the projected number of ship movements as determined in this case, to the actual number of ship movements for the period. The difference is calculated as a percentage of the projected number and the rates increased (if actual is less than projected) or decreased (if actual is more than projected) by that percentage for the subsequent period. Some of the tariff rates are based on ship size but that is not taken into account in the proposal, so there is no guarantee that the correct revenue shortage or overage would be recovered or credited in the subsequent period.

[13] Exh. MY-5 at 1.

Q. What is Staff's second concern?

A. Fundamentally, the adjustment mechanism subverts bedrock principles of ratemaking. A revenue requirement is not a guarantee of earnings. If it were, the Commission would implement an automatic adjustment for every company it regulates. The Commission sets rates to provide a regulated entity with the *opportunity* to earn its revenue requirement through prudent management. This adjustment works to guarantee PSP its revenue requirement. As the revenue requirement is based on a projected number of ship movements, this adjustment would serve to recalculate the revenue requirement and adjust rates to obtain that recalculated revenue requirement, with the result that distributable net income would remain unchanged from that projected in the rate filing. Staff interprets this as a form of retroactive rate making, which is counter to Commission policy and practice.

Q. Given Staff's concerns, what does it recommend that the Commission do with regard to the first automatic adjustment mechanism?

A. The Commission should reject the request for the automatic adjuster.

Q. What is the second automatic adjustment mechanism proposed by PSP?

A. It adjusts rates automatically upon the licensure of a new pilot or the retirement or separation from service of an existing pilot.[14]

[14] Exh. MY-5 at 1.

Q. How does the adjustment work?

A. PSP proposes that when a new pilot is granted a license or an existing pilot retires, rates be adjusted to account for the licensee's distributable net income, benefits, and costs in proportion to the total revenue projected for the year in which these occur.[15] In other words, when a new pilot is licensed, a per-pilot amount for those factors would be converted to a percentage based on the total revenue projected for that year. A similar calculation would be performed to decrease rates when a pilot retires.[16] The resulting percentage would then be applied to tariff rates.

Q. Does Staff have concerns with this proposed adjustment mechanism?

A. Yes, three of them.

Q. What is Staff's first concern?

A. PSP is proposing a (potentially) quarterly adjustment to rates, which would require recalculating the Distributable Net Income (DNI), a major component of the rate design, without any consideration to any changes in revenue or expenses. This runs against the ratemaking matching principle, which requires consideration of other changes in revenues or expenses that would net out against the proposed adjustment.

Q. What is Staff's second concern?

A. Adding or subtracting licensed pilots is the prerogative of the PSP Association and Board of Pilotage. Customers should be somewhat agnostic to the number of pilots,

[15] *Id.*
[16] *Id.*

other than the obvious reduction in delays if there are more pilots as opposed to fewer. Customers should not care if one pilot moves all the ships, or some pilots move none of the ships; the service is ship movement and how that work is assigned is the responsibility of PSP. Adding more pilots should not cost the customers more for the same given number of ship movements.

Q. What is Staff's third concern?

A. Again, this also has the appearance of ensuring a fixed "per-pilot" revenue requirement and subsequent distributable net income when the revenue requirement should be based on the cost to provide the movement of the projected number of ships.

Q. Given Staff's concerns, what recommendation does it offer with respect to the second automatic adjustment mechanism?

A. Staff recommends that the Commission reject the mechanism.

Q. What is the third proposed automatic adjustment mechanism?

A. PSP proposes a cost-of-living adjustment (COLA).[17]

Q. How would the mechanism work?

A. PSP proposes a COLA that adjusts Tariff rates each following January 1st, by the annual percentage increase in the Consumer Price Index (for All Urban Consumers

[17] *Id.*

in the Seattle-Tacoma-Bellevue area) issued by the federal Department of Labor each September.[18]

Q. Does Staff have concerns about this mechanism?

A. Not in principle. Of all of PSP's proposals, this one best meets the definition of "automatic" as it is based on a known and measurable index that is widely accepted for economic use. As an annual adjustment, it would require filing revised tariff pages with rates increased by the fixed percentage.

Q. What recommendation does Staff offer as to PSP's request for an annual COLA?

A. Staff recommends that the Commission approve a COLA.

Q. What are PSP's fourth and fifth proposals for automatic adjustments?

A. They adjust for the Pay-As-You-Go pension plan that is currently in use.[19]

Q. How does the fourth adjuster work?

A. A tonnage rate in Tariff Item 400 would be created starting January 1, 2024 (and adjusted each subsequent January 1st) to recover the estimated costs to pay retirement benefits to existing PSP retirees.[20] The surcharge would be applied to each ship

[18] *Id.*
[19] *Id.* at 1-2.
[20] *Id.* at 1.

movement calculated on vessel tonnage.[21] Any determined overage or underage would be carried forward into the adjustment in the subsequent year.[22]

Q. How does the fifth adjuster work?

A. A tonnage rate in Tariff Item 410 would be created starting January 1, 2024 (and adjusted each subsequent January 1st) to recover the estimated costs to fund the proposed Defined Benefit Pension Plan for working pilots as of January 1, 2024.[23] The surcharge would be applied to each ship movement calculated on vessel tonnage.[24] Any determined overage or underage would be carried forward into the adjustment in the subsequent year.[25]

Q. Do Staff have concerns about these proposed adjusters?

A. Yes. The Commission directed PSP and PMSA to develop a new defined benefit pension plan, and Staff does not think it would be appropriate to include any adjusters until that directive has been resolved.

Q. Has PSP addressed pension costs in other ways in its rate filing?

A. Yes. PSP has already included pro forma adjustments for the existing pension plan in its revenue requirement.

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[21] *Id.*
[22] *Id.*
[23] *Id.*
[24] *Id.* at 1-2.
[25] *Id.* at 2.

Q. Did Staff address those proposed pro forma adjustments?

A. No. As explained below, Staff has chosen not to address them as it believes the more correct treatment will involve a revised tariff based on a revenue requirement calculated using known and measurable pension costs once the new pension plan has been determined.

Q. Given Staff's concerns, what does it recommend that the Commission do with regard to the fourth and fifth automatic adjusters?

A. Staff recommends that the Commission reject them and direct PSP to refile tariff pages that remove them.

Q. What is PSP's sixth proposal for an automatic adjustment?

A. It automatically adjusts for the annual pilot station and pilot boat expenses. [26]

Q. How would the adjustment work?

A. A tonnage rate in Tariff Item 420 would be created starting January 1, 2026 (and adjusted each subsequent January 1st) to recover the variance between annual costs of operating the pilot boat and the pilot station and the actual costs paid in the previous year.[27] An audit would be performed to determine the actual costs and to calculate the adjuster, creating a 1-year lag.[28] For instance, the costs incurred in 2024 would be audited in 2025, and the resulting surcharge would apply in 2026, during

[26] *Id.*
[27] *Id.*
[28] *Id.*

which the audit of actual costs for 2025 would be conducted, and so forth. The surcharge would be applied to each ship movement calculated on vessel tonnage.[29] Any determined overage or underage would be carried forward into the adjustment in the subsequent year.[30]

Q. Does Staff have concerns about the sixth proposed automatic adjuster?

A. Yes. Again, Staff has two.

Q. What is Staff's first concern?

A. First, this adjustment creates a significant administrative burden. PSP would have to provide general ledger data and supporting invoices for review and a rate calculated, along with a true-up factor based on actual collection of the surcharge and projected revenue from the previous year's audit and calculation. Although limited in scope, this review requires the same process as a general rate filing.

Q. What is Staff's second concern?

A. PSP's adjustment does not involve looking at offsetting factors. Again, the Commission is committed to the matching principle, and that principle requires examination of any cost offsets that net out any adjustment to revenues. PSP does not provide for that examination.

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[29] *Id.*
[30] *Id.*

Q. Given Staff's concerns, what does it recommend the Commission do as regards the sixth automatic adjuster?

A. Reject it.

Q. What is PSP's proposed seventh automatic adjuster?

A. It would impose a surcharge to recover "periodic" pilot station and pilot boat capital costs.[31]

Q. How would the adjuster work?

A. A tonnage rate in Tariff Item 430 would be created to recover the capital costs associated with the pilot boat and the pilot station.[32] PSP would provide the Commission with copies of invoices paid for capital improvements, which Staff would review within 30 days and either approve or disapprove the expenditure.[33] The total amount approved would be recovered in a surcharge (presumably on an annual basis and adjusted annually) which would be applied to each ship movement calculated on vessel tonnage.[34] Any determined overage or underage would be carried forward into the adjustment in the subsequent year.[35]

[31] *Id.*
[32] *Id.*
[33] *Id.*
[34] *Id.*
[35] *Id.*

Q. Does Staff have concerns about this adjustment mechanism?

A. Yes. This adjustment has some merit in that the Commission often allows surcharges as a funding mechanism for capital improvements. However, this proposal differs significantly from those typically approved by the Commission in that it involves considerable administrative burden and creates rate instability.

Q. Please explain what makes this adjuster unusual.

A. The proposal here would involve the Commission reviewing and approving or disapproving actual invoices within 30 days, and then adjusting the surcharge to account for those invoices. The more usual surcharges are typically calculated based the total capital cost and recovered over a fixed period of time, typically the useful life of the investment or improvement. The decision to invest in capital projects rests with the business owners, along with the associated financing. It would be more appropriate for PSP to submit a request for a fixed surcharge that contains known and measurable costs of the assets, the useful life of the capital improvements, and any financing terms, which can then be reviewed, and a rate determined that would not need any adjustment for the life of the asset and/or terms of financing.

Q. Please explain why this proposal would create undue administrative burden.

A. As mentioned, the proposal requires the Commission to consider expenses monthly and then make adjustments (presumably annually, but it is not spelled out in the proposal) to the surcharge. A more traditional one-time rate filing would be more efficient than multiple reviews of groups of invoices. Additionally, there is no mention of how costs that were disapproved would be treated, or how any disputes might be resolved. Traditionally, disagreement over rates result in suspension of the proposed tariff until a hearing can resolve the matter. The hearing process is not unlike the current rate setting process.

Q. Does Staff have any other concerns with the filing?

A. The Commission has recognized the importance of providing stability and certainty to customers in terms of the rates charged by a regulated entity. This tariff will result in unpredictable fluctuations to rates as invoices are reviewed and the surcharge changes. It is more beneficial to customers to have rate stability over the life of the surcharge than more frequent annual adjustments.

Q. What action does Staff recommend the Commission take with regard to the seventh adjustment mechanism?

A. Reject it.

Q. Does Staff oppose any of these adjustments simply because they are surcharges?

A. Not exactly. As previously stated, a surcharge is a funding mechanism for known and measurable capital improvements, temporary, or pass-through costs. The Commission frequently employs surcharges. But Staff prefers rates be based on normal test-year expenses, which could just as easily include any on-going payments for capital financing or other expenses. The benefit of including these costs in rates is a more efficient review process where any off-setting savings or other related costs (such as taxes or fees) can be included. There is also the benefit to customers of a clear and concise tariff. Also, many of the proposed surcharges appear to be efforts to ensure recovery of actual incurred expenditures in future rates, which amounts to retroactive rate making.

D. Pension Costs

Q. Above, you testified that PSP included pension costs as an adjustment. What adjustment reflects those costs?

A. PSP's adjustment P-16.

Q. How much does PSP include as a pro forma cost?

A. $902,438.

Q. Does Staff recommend including pension costs through that adjustment?

A. No. As discussed above, the Commission has directed the PSP and PSMA to enter into mediated discussions to determine a new direction for pilot pensions. Until agreement has been reached, any costs included would be based on estimates or projections and estimates and projections that would probably not have much of a grounding in fact.

Q. How does Staff recommend that the Commission address pension costs?

A. Staff proposes leaving pension plan costs at the level of the previous rate case. Staff believes those costs are the best currently available known and measurable proxy for pension costs going forward.

E. Health Insurance

Q. Did PSP include an amount for health insurance?

A. Yes. PSP's Adjustment P-04, in the amount of $240,778 represents the increase in expected premium cost for 56 pilots for 2023.

Q. What evidence did PSP provide to support the inclusion of those costs in its revenue requirement?

A. Not much of anything, despite Staff's request for information through data requests.

Q. What does Staff recommend that the Commission do with regard to PSP's health care costs?

A. Staff believes it is appropriate to offer health insurance as part of PSP's compensation package. However, the pilots themselves are owners, and function as independent contractors. The Commission agreed that they should provide their own health insurance, in Order 09:

> *The Commission accepts PSP's proposed restating adjustment for medical insurance expenses for PSP employees, but directs PSP to transition to a structure that requires pilots to fund their own medical insurance expenses through DNI using a phased-in approach. In year one of the rate plan, PSP may continue to include pilot medical insurance expenses in its revenue requirement. In year two of the rate plan, PSP may include only 50 percent of the value of pilot medical insurance expenses in its revenue requirement, and the*

remaining 50 percent must be accounted for as pilot compensation and paid from pilot DNI.[36]

The Insurance-Medical Expense in the amount of $1,885,345 (which includes the proposed pro forma adjustment P-04 for premiums) should be removed from the revenue requirement and added to the proposed DNI amount as identified in Staff Adjustment PF-8.[37] This ensures that pilot compensation will increase to off-set the expense decrease.

F. Consultant Costs

Q. Did you examine expenses paid to consultants?

A. Yes.

Q. What consultant costs did PSP include within its revenue requirement?

A. PSP paid $64,071.84 to Walt Tabler Consulting, and $53,625.00 to RedCloud Consulting, with those payments occurring in 2021.

Q. What explanation did PSP offer for including those costs in its revenue requirement?

A. Staff asked for support for these costs in DR 45. Concerning Walt Tabler, PSP stated that "Work and Documents prepared by Walt Tabler of Tabler Consulting in 2021 regarding implementation of the UTC 2020 Order were prepared by Mr. Tabler in

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[36] *E.g.*, *Wash. Utils. & Transp. Comm'n v. Puget Sound Pilots*, Docket TP-190976, Order 09, ii-iii (Nov. 25, 2020).
[37] Exh. MY-6

his capacity as former General Counsel and Executive Director of PSP during the period when PSP's Executive Director position was not filled." As regards RedCloud, PSP stated that the company was retained to monitor and track workload management and efficiency measures, also pursuant to the Commission's Order 09 in the previous case. PSP goes on to state that "The significant work associated with this integration raised cost concerns for PSP and the project has been suspended."

Q. What does Staff recommend with regard to these costs?

A. Staff recommends removing them from the revenue requirement as proposed in Staff Adjustment R-16.[38]

Q. Why does Staff recommend removing the Walt Tabler consulting costs?

A. Since implementation of Order 09 is not a normal, recurring expense, those costs should be excluded from test year expenses for determining the revenue requirement. Additionally, costs for the position of executive director were already included in the revenue requirement calculation, and thus would be double counted here as consulting expenses.

Q. Why does Staff recommend removing the RedCloud expenses?

A. Staff concludes that the work was not completed and therefore does not provide any used or useful product that would contribute to the provision of pilot services. Additionally, those costs are not normal test year expenses.

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[38] Exh. MY-7.

Q. Did you examine expenses paid for the Juan de Fuca preventative maintenance?

A. Yes.

G. Maintenance Costs

Q. What are these expenses for?

A. PSP proposes a restating adjustment of $125,316 for repair costs including a haul-out, and engine repairs.

Q. What does Staff recommend?

A. These types of repairs are not required nor performed every year and so are not typical recurring test year expenses. Staff recommends amortizing the amount over five years. Staff proposes Restating Adjustment R-19 in the amount of $25,063 in Staff Exhibit MY-8.

H. Rate Design

Q. Did you review proposed pro forma adjustments to revenue related to rate design?

A. Yes.

Q. What are these adjustments for?

A. PSP proposes pro forma adjustments P-23 for $12,580,625, and P-25 for $141,288, to add the effect of their proposed a rates to the Pro Forma Results of Operations.

Q. What does Staff recommend?

A. Staff recommends removing these adjustments as pro forma adjustments. Instead, Staff has shown the effect of rates in a separate column on its Results of Operations as this number changes as rates are changed, allowing the pro forma results of operations to remain fixed as agreed upon. In addition, PSP's proposed revenue calculations used in computing these adjustments utilized rates that differed slightly from the rates included in the filed tariff pages for Items 300 and 350. For these reasons, Staff also made adjustments PF-17 and PF-18, B&O tax calculations based on the final pro forma results revenue.

Q. What does Staff recommend for rate design?

A. Staff recommends a rate design based on increasing current tariff rates by a fixed percentage as calculated in Staff Exhibit MY-9. Staff's proposed rates are contained in Staff Exhibit MY-10.

Q. Does this conclude your testimony?

A. Yes.