

B. Staff's Recommendation is Fair and Reasonable

1. Fundamental principles and Commission precedent.

12 Generally-accepted, fundamental accounting principles dictate that shared costs should be allocated based on cost-drivers.¹⁸ Allocation factors should reasonably attempt to allocate costs to the entities and operations generating those costs.¹⁹ When expenses cannot be directly assigned, Commission precedent also supports allocating expenses based on the principles of cost causation and avoidance of cross-subsidies.²⁰ Only Staff's testimony applies these principles and precedent in its recommendation to the Commission.

2. Staff's recommendation reasonably estimates costs.

13 Staff bases its three-factor allocator on each affiliate's average percentage of its relative number of employees, adjusted revenue, and fixed asset book value.²¹ Staff does not propose allocating on the basis of any single factor.²² The combination of three-factors provides a reasonable and accurate estimate of each entity's relative size and impact on common resources.

¹⁸ Every legitimate textbook or treatise on ratemaking includes discussion about the basic fairness of using cost causation principles as a primary factor in determining fair and reasonable cost allocations and rates. *See, e.g.,* LEONARD SAUL GOODMAN, *THE PROCESS OF RATEMAKING*, Vol. I, pp. 37-388 and 420-422 (1988); CHARLES F. PHILLIPS, JR., *THE REGULATION OF PUBLIC UTILITIES* 227, 434-436 (1993).

¹⁹ *See* GOODMAN at 374.

²⁰ Nearly every docket before the Commission contains some allocation on the basis of cost causation/avoiding cross subsidies. For representative examples across regulated industries, *see e.g. WUTC v. American Water Resources, Inc.*, Dockets UW-980072, UW-980258, UW-980265 (consolidated), Sixth Supplemental Order (Jan. 21, 1999); *In the Matter of the Petition of Puget Sound Energy, Inc., and Northwest Energy Coalition for an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and to Record Accounting Entries Associated with the Mechanisms*, Dockets UE-121697 and UG-121705, Order 09 at p. 16 (December 12, 2013); *King County Department of Public Works, Solid Waste Division v. Seattle Disposal Company, Rabanco Ltd., d/b/a Eastside Disposal and Container Hauling*, Docket TG-940411, Third Supplemental Order (Final) at pp. 14-20, (Sept. 14, 1994).

²¹ Testimony of Melissa Cheesman, Exhibit No. ___ (MC-1T), pp. 16-17 (July 18, 2014).

²² *Id.*