EXH. AML-09Tr
DOCKET TP-250574
2025 PSP GENERAL RATE CASE
WITNESS: ANN M. LARUE, CPA

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND PILOTS,** **Respondent.**	**Docket TP-250574**

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF

ANN M. LARUE, CPA

ON BEHALF OF PUGET SOUND PILOTS

REVISED
MARCH 15, 2026

FEBRUARY 2, 2026

PUGET SOUND PILOTS

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF ANN M. LARUE, CPA

CONTENTS

I. INTRODUCTION 1

II. NUMBER OF PILOTS TO FUND AND LICENSE FEES AND DUES 11

III. OPERATING MARGIN 17

IV. CAPITAL RECOVERY CHARGE AND PORTABLE PILOT UNITS 32

V. ATTORNEY FEES & PENSION 38

VI. TRANSPORTATION 43

VII. AFFILIATES 47

VIII. PORT ANGELES EXPENSE CHARGE AND TARIFF CHANGES 49

IX. VESSEL TRAFFIC 57

X. CONCLUSION 61

PUGET SOUND PILOTS

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF ANN M. LARUE, CPA

LIST OF EXHIBITS

Exh. AML-10	Results of Operations Model - updated
Exh. AML-11	PSP Proposed Adjustments & Status
Exh. AML-12	PMSA DNI Proposal Calculations
Exh. AML-13	Actual Expense & TDNI Data
Exh. AML-14	2025 Actual Pilot Transportation Expenses
Exh. AML-15	Transportation Expenses Compilation (2021-2025)
Exh. AML-16	Pilot Transfers and Fuel Expense
Exh. AML-17	January 14, 2026 Letter from the BPC

PUGET SOUND PILOTS

PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF ANN M. LARUE, CPA

I. INTRODUCTION

Q. Are you the same Ann M. LaRue who submitted Prefiled Direct Testimony on July 29, 2025 on behalf of Puget Sound Pilots ("PSP" or the "Company") in this proceeding?

A. Yes, on July 29, 2025 I filed the Prefiled Direct Testimony of Ann M. LaRue, CPA, Exhibit AML-01T, and 7 supporting exhibits (AML-02 through AML-08).

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony will refute several of the recommendations made by staff ("Staff") of the Washington Utilities and Transportation Commission ("UTC" or "Commission") and address issues raised by Capt. Michael Moore on behalf of the Pacific Merchant Shipping Association ("PMSA"). I will defer to PSP's other expert witnesses to address specific issues, such as pension expenses and pilot compensation.

I respond to Staff witness Sevall's recommended revenue requirement, including the revenue requirement formula and operating margin, and provide comments on the number of pilots to fund.

I respond to Staff's recommendations for general legal expenses, fuel expenses, rate case costs, affiliates, and the changes PSP proposed to the tariff. I also address Staff's disallowance of the Capital Recovery Charge ("CRC") and its proposed changes to the Port Angeles Expense Charge ("PAX"). I provide comments about Staff's transportation charge recommendation. PSP witness Eric Klapperich will respond to Staff witness Van Meter's overall analysis and recommendation for transportation.

Finally, I dispute many of the allegations made by PMSA witness Moore and respond to several of the arguments he raises, including, but not limited to, the proposed revenue requirement formula, the inconsistent application of UTC rules and standards, transportation cost recovery, inaccurate statements around callback and proposed recovery, and PSP's request for authority to recover specific legal and consulting expenses.

Q. Please summarize PSP's proposals in its case in chief.

A. In its case in chief, PSP proposed the following:

- changes to the Commission's rate setting methodology and revenue requirement formula for setting rates in the Puget Sound Pilotage District, as directed by the UTC;
- an increased total distributable net income ("TDNI") supported by the "the clearest and most complete salary evidence that PSP has provided in any case"[1];
- a proposed a cost of living adjustment ("COLA") explicitly for TDNI;

[1] Exh. SS-01T at 8:8-9.

- a revised tariff charge, the Port Angeles Expense Charge or PAX, to clarify its purpose and align cost recovery; and
- a Capital Recovery Charge ("CRC") to be collected as a surcharge to fund necessary capital improvements, based on PSP's five-year capital plan.

Q. In order to accommodate the proposals in this rate case, what other changes were made to the presentation of PSP's economic information in the Results of Operations Model?

A. Similar to the information that was presented at the Staff-led workshop in July 2024, PSP revised its Results of Operations to present unallowable expenses below the line and bifurcate TDNI from PSP's operating expenses. The price-out data was modified to use test year "occurrences" to calculate the revenue generated by each line of service. And the tariff was revised to properly present PSP's proposals and to correct terminology previously overlooked.

Q. PMSA claims that PSP's proposals are not supported by work papers as required by WAC 480-07-525(4)(s).[2] How do you respond?

A. I disagree. The relevant WAC addresses a "change in methodologies for adjustments" that are calculated differently from past cases. Adjustments refer to pro forma and restating adjustments. PSP has not calculated adjustments differently than in past cases.

[2] Exh. MM-01T at 18:12-13.

Q. Did PSP meet with PMSA to walk through these concerns?

A. Yes, when PMSA raised its concerns, PSP offered to meet with PMSA to walk through any questions they had about methodologies. PSP and PMSA met and had these discussions in September 2025.

Q. Please respond to PMSA witness Capt. Moore's testimony related to PSP expecting a return on retirement savings, "Ms. LaRue states that PSP has recognized a fair annual return of 12% based on the S&P 500 index."[3]

A. This was not stated in my testimony and misrepresents my testimony. My discussion of a 12 percent return was in the context of PSP's request for an operating margin; I did not testify about PSP's expectations for a return on retirement savings.

Q. Staff has recommended disallowance of several adjustments without discussing alternate solutions or proposals and remained silent on issues that PSP, and the Commission, specifically requested clarification in this case. What is your response to this approach?

A. As a new industry, it is of utmost importance to make sound, well-reasoned and well-researched recommendations when determining the foundation for which to develop the pilotage rate setting process at the UTC for the Puget Sound Pilotage District tariff. The goal should be to refine the marine pilotage rate setting

[3] Exh. MM-1T at 171:22-23.

processes. The continued reliance on improper rate setting methodologies that were previously utilized in lieu of actual data should be re-evaluated since PSP is providing actual data in this proceeding.

Staff's approach, which would disallow recovery of actual required expenses, while offering no alternatives, will only continue to erode PSP's already well below national average pilot compensation.

Q. Staff's testimony suggests that PSP should be effectively penalized because it didn't receive approval in an undefined time period for its MEP and because Staff was excluded from the settlement discussions between PSP and PMSA in 2024. How do you respond?

A. PSP witness Capt. Carlson will respond to witness Sevall's recommendations regarding the pension, but I disagree with Staff's approach from a regulatory and cost recovery perspective. PSP disagrees with witness Sevall's recommended disallowance of one-third of PSP's pension expenses. This recommendation is unsupported and punitive. And to penalize PSP by recommending disallowance of $2.2 million of reasonably incurred costs that PSP has a contractual obligation to pay is unfair.

PSP had no control over the delays in the MEP approval process. This process has been well documented in the bi-monthly updates submitted by PSP in Docket TP-220513. Through PSP's persistence and determination, the MEP has been approved by the IRS as a tax-qualified plan, as discussed in Exh. BJM-07T.

Q. Are you sponsoring exhibits with your rebuttal testimony?

A. Yes. I've provided the following exhibits to support my testimony here.

- Exh. AML-10 – Results of Operations Model - updated
- Exh. AML-11 – PSP Proposed Adjustments & Status
- Exh. AML-12 – PMSA DNI Proposal Calculations
- Exh. AML-13 – Actual Expense & TDNI Data
- Exh. AML-14 – 2025 Actual Pilot Transportation Expenses
- Exh. AML-15 – Transportation Expenses Compilation (2021-2025)
- Exh. AML-16 Pilot Transfers and Fuel Expense
- Exh. AML-17 January 14, 2026 Letter from the BPC

Q. Please describe the exhibits that you are providing with your rebuttal testimony.

A. Exh. AML-10 – Results of Operations Model – updated, is PSP's updated Results of Operations Model. This model incorporates minor corrections identified during the discovery process and includes agreed-upon adjustments to date. This exhibit provides a model-to-model comparison of Exh. AML-03 and Exh. AML-10.

Exh. AML-11 – PSP Proposed Adjustments and Status, provides a complete list of the fifty-four restating and pro forma adjustments proposed by PSP in its case in chief. This list includes PSP's adjustment number, the corresponding account number and name, the adjustment amount, Staff's adjustment amount and adjustment number as laid out in its response testimony, and the status of each adjustment.

Exh. AML-12 – PMSA DNI Proposal Calculations, provides the calculations that show PMSA's proposals would result in DNI of $310,987.

Exh. AML-13 – 2025 Actual Expense & TDNI Data, provides actual TDNI and Expenses over the last three general rates cases.

Exh. AML-14 – 2025 Transportation Expenses provides PSP's actual 2025 pilot transportation expenses.

Exh. AML-15 – Transportation Expenses Compilation (2021-2025) provides PSPs actual pilot transportation expenses since Tariff 1 was issued.

Exh. AML-16 – Pilot Transfers and Fuel Expense shows the correlation of fuel expense as related to pilot transfers.

Exh. AML-17 – January 14, 2026 Letter from the BPC includes a letter PSP received from the BPC that requires additional mandatory pilot training.

Q. You are providing an updated Results of Operations model as Exh. AML-10 with your rebuttal testimony. Please summarize the changes being made in Exh. AML-10.

A. Exh. AML-10 incorporates minor corrections identified during the discovery process and the agreed-upon adjustments to date to provide a model-to-model comparison of the results of operations shown in Exh. AML-03 to the results of operations shown in Exh. AML-10. Changes contained within Exh. AML-10 are:

- formula corrections on Sch 2.02 Price-Out and Sch 2.31 PAX Charge;
- account number corrections on Sch 1.4 Pro Forma Adj.;
- removal of the expenses related to the 2027 PPUs reflected on Sch 2.03 Reg Depr Sched and on Sch 2.36 PPUs, with the results reflected in Sch 1.2 Results of Operations; and
- updated Sch 2.02 Price-Out reflects the resulting rates after making the above changes.

Q. What is the resulting revenue requirement after incorporating these changes?

A. Incorporating these changes into PSP's updated Results of Operations model (Exh. AML-10) reduced the overall revenue requirement proposal by $423,000, to $66,776,000, resulting in a 51.25 percent increase in rates (except for Item 330 and Item 340) instead of a 52.3 percent increase.

Q. Did these changes affect the proposed Port Angeles Expense ("PAX") charge rate?

A. No. The PAX charge presented in Exh. AML-10 is as it was originally submitted, with the formula errors corrected as noted above.

Q. Did these changes affect the Transportation Charge?

A. No. PSP disagrees with the recommendations proposed by PMSA and Staff for the recovery of the costs of actual pilot transportation expenses. Therefore, the transportation charge in Exh. AML-10 is as it was proposed in the initial case. PSP's proposed transportation charge should be adopted as proposed.

Q. Exh. AML-11 provides a comprehensive list of PSP's proposed restating and pro forma adjustments. It appears that all but eleven of these adjustments are uncontested by Staff. From your reading of Capt. Moore's testimony, which adjustments are uncontested by PMSA?

A. PMSA did not take issue with any of PSP's proposed adjustments. PMSA deferred to Staff on these types of issues. To the extent PMSA changes its position on cross-answering testimony, as it indicated it might,[4] PSP is concerned PMSA's new position those currently uncontested issues were not raised properly by PMSA in response testimony, which would deny PSP the opportunity to respond.

[44] Exh. MM-01T at 13:2-4, 133:6-8, and 195:9-15.

Q. Please explain why three of the eleven "contested" adjustments are marked "compliance" in Exh. AML-11.

A. Staff recommended adjustments to three accounts that should be updated through PSP's compliance filing: fuel expenses for each pilot boat and rate case expenses. While PSP disagrees with witness Van Meter's recommendations for these expenses, it is understood that fuel expenses will be updated to the most recent 12-months of actual fuel expenses through a compliance filing and that PSP's estimated rate case expenses may be updated to actual at the conclusion of this rate case.[5] Additionally, to the extent applicable, PSP also favors adjusting the number of pilots for purposes of calculating TDNI in a compliance filing post final order, to reflect the BPC-authorized number of pilots, as discussed in the rebuttal testimony of Capt. Carlson.

Q. Does Exh. AML-10 include the contested adjustments identified in Exh. AML- 11?

A. Exh. AML-10 does not include the six highlighted contested adjustments identified in Exh. AML-11. PSP tentatively agrees with Staff adjustment S-01 to remove the depreciation expense related to the 2027 PPUs and is in partial agreement with Staff adjustment S-02 to remove the increased operating expenses for the 2027 PPUs. These adjustments are discussed in detail below in Section IV and represented in Exh. AML-10 on Sch 2.03 Reg Depr and Sch 2.36 PPUs.

[5] *See, e.g.* WAC 480-70-346.

Q. Please explain why you removed PSP's proposed Capital Recovery Charge ("CRC") from the price-out?

A. While the CRC surcharge had no effect on PSP's revenue requirement request, it was removed from the Price-Out in Exh. AML-10. This CRC surcharge proposal has been revised to address concerns raised by Staff and is discussed and supported below.

II. NUMBER OF PILOTS TO FUND AND LICENSE FEES AND DUES

Q. Before discussing the number of pilots and related expenses, would you please comment on Capt. Moore's proposed DNI in this rate case?

A. PMSA proposes to decrease the DNI substantially from the current Commission authorized DNI of $475,733, to either $427,286 or $436,893 per pilot.[6] For ease of reference in analyzing his proposed decrease in DNI, I will use the three-year average of $436,893. This amount is 8.2 percent less than the pilot compensation currently authorized for recovery in rates. However, accounting for the expenses that Capt. Moore wants to shift, including pension expenses, unfunded pilots, unrecovered transportation expenses, legal and consulting expenses, his proposal results in a 35 percent decrease in the pilot compensation currently authorized for recovery in rates. Exh. AML-12 shows Capt. Moore's proposal would result in a DNI of $310,987.

[6] Exh. MM-1T at 165:21-24.

Q. Will Capt. Carlson also be responding to Staff recommendations on the number of pilots to fund?

A. Yes.

Q. Does the Commission have the authority to set the number of authorized or licensed pilots?

A. No. The BPC alone has the authority to set the number of licensed pilots needed to safely operate compulsory pilotage service in the Puget Sound Pilotage District.[7]

Q. Does WAC 480-07-525(4)(n) indicate the UTC should consider the number of licensed pilots?

A. I believe so. This WAC indicates that as part of workpapers, the UTC requests data that reflects the "number of pilots licensed in the pilotage district" and provide the BPC's determination.

Q. Can you briefly discuss the challenges, from a regulatory perspective, that PSP has experienced being regulated by two primary regulatory agencies?

A. PSP is situated in the middle of where BPC authority ends and UTC authority begins. The UTC and the BPC each have separate authority over PSP, but each of their decisions can affect decisions made by the other agency to some degree. While the BPC is authorizing the number of pilots it deems necessary for the

[7] WAC 363-116-065.

provision of safe and reliable pilotage service, PSP may end up in a situation where that number of necessary pilots is not funded by the Commission. PSP recognizes that an overlap exists when it comes to funding an operation which is co-regulated by an agency charged with determining crucial rate setting inputs that are outside PSP's or the Commission's control. PMSA argues that as an economic regulator, the Commission does not need to give weight to the number of pilots authorized by the BPC. But the economic reality is that PSP is held to and must follow the determinations of the BPC. While PSP recognizes there might not always be uniformity in decisions made by its regulators, the proposed number of pilots in this case should err directionally towards the side of the safety regulator.

Q. When regulating safety, a quicker decision-making process is necessary and as such, the BPCs decision making process is more nimble than the UTC rate setting process. Why is this an important consideration when setting pilotage rates?

A. When the Commission sets its forward-looking rates in a rate case, those rates are based on a test year that should be the most recent 12 months of data. This test year can be 12 months old or more when a rate case is submitted because of the time it takes to assemble a formal general rate case. And because formal general rate cases, like PSP's rate cases, take about 11 months, a rate change for the Puget Sound Pilotage District takes time. Therefore, it is important to determine the best

way to bridge the gap between the BPC's dynamic changes and the UTC's lengthier rate setting process.

PSP's proposals in this case begin bridging this gap by using tools acceptable for other industries regulated by the Commission to allow more flexibility when adjusting the Puget Sound Pilotage District rates to accommodate changes made at the BPC when necessary to ensure proper cost recovery.

Q. Has the UTC acknowledged the BPC's authority over safety and operations?

A. Yes. The UTC has acknowledged the BPC's independent authority to set the number of authorized pilots,[8] which includes the target assignment level ("TAL") for the Puget Sound Pilotage District, as well as the BPC Training Stipend under Item 380: Special Surcharges in the tariff.

[8] *WUTC v. Puget Sound Pilots,* Docket TP-220513, Final Order 08 at ¶ 49 (Aug. 10, 2023) ("Order 08").

Q. Has the rate setting process for the Puget Sound Pilotage District been adjusted to recognize the UTC's acknowledgment of the BPC's authority?

A. Not if the Staff proposal or PMSA's proposal concerning the number of pilots and average assignment level is adopted. Staff and PMSA are advocating for rates for the Puget Sound Pilotage District tariff to be set (as they were in PSP's inaugural UTC rate case) using numbers that are not based on the number of actual pilots or the number of authorized pilots.

Q. Why is this concerning?

A. The BPC sets the authorized number of pilots and TAL after considering a plethora of operational and safety data. It is concerning that Staff and the PMSA continue to use a methodology that reflects a deflated number of pilots and a fictitious assignment level for setting rates.

Q. How many pilots are currently licensed at PSP?

A. Currently, there are 56 pilots licensed at PSP.

Q. When did the BPC number of authorized pilots most recently change?

A. The number of pilots authorized by the BPC was raised to 60 in August 2025.[9]

[9] The BPC's equation to determine the number of authorized pilots is:
number of authorized pilots = (assignments/TAL) + 1 NFFD) + 1 president

Q. When did the BPC target assignment level change to 123?

A. The TAL was changed to 123 in June 2024. As it does when evaluating the number of licensed pilots, the BPC considers a variety of operational and safety data when setting the TAL.

Q. Do you agree with witness Sevall's recommendation to fund 56 pilots?

A. No, I don't. As a former staffer, I understand witness Sevall's reluctance to fund more pilots than are licensed. However, it is well-established that the PSP pilot count is a dynamic input outside of its control. If only 56 pilots are funded in this rate case, without consideration of imminent licensees, the per-pilot DNI must be reduced to compensate any licensed pilots added between rate cases. In other words, pilots themselves subsidize the cost of the additional licensed pilots that were authorized by the BPC but unfunded by the UTC.

Q. PSP anticipates having additional licensed pilots by the end of this rate case, and possibly more still by the end of 2026. What do you recommend to allow recovery in rates for the expenses to fund the actual number of licensed pilots going forward?

A. If the Commission chooses to fund fewer than the number of authorized pilots, PSP should be provided with a mechanism, like an automatic tariff adjuster with compliance filings, to adjust the Puget Sound Pilotage District rates to recover the additional expenses for the actual number of licensed pilots at PSP between UTC rate cases.

Q. Staff witness Sevall proposes a floor/ceiling concept stating that the UTC should fund no fewer than the actual and no more than the authorized number of pilots. How do you propose the UTC employ this concept?

A. I believe a better alternative is to implement an automatic adjuster for the number of licensed pilots, similar to PSP's proposal in the previous rate case, which would bring stability to PSP rate setting at the UTC and provide the fairest resolution.

III. OPERATING MARGIN

Q. Why should the Commission include an operating margin in the revenue requirement formula for PSP?

A. Including a return component, in some form, is essential for consistent treatment of PSP's rate setting process at the UTC and fairness to this newly UTC-regulated industry. PSP has isolated pilot compensation from its operating expenses to provide a basis on which to consider an operating margin methodology, similar to other UTC-regulated transportation companies. PSP's proposal applies an operating margin only to Commission-authorized operating expenses, with pilot compensation excluded.

Q. Please explain why PSP's proposed changes in this rate case, including bifurcating pilot compensation and revising its revenue requirement formula, are appropriate changes to pilotage rate making at the UTC.

A. It has been recognized that PSP is a bit of a square peg in a round hole at the Commission. Allowing an opportunity to earn a fair return on operating expenses and bifurcating pilot compensation from operating expense begins bridging the gap between pilotage rate setting and the rate setting for other transportation companies at the UTC.

Including an operating margin in PSP rates is necessary because unlike other UTC rate regulated companies, PSP's pilot compensation should be nationally benchmarked, while its operating cost recovery should be benchmarked to other UTC-regulated transportation companies. PSP's proposals in this case provide a practical solution by isolating TDNI and its components from PSP's operating expenses.

Q. When bifurcating TDNI, what items were moved below the line?

A. Pilot compensation, comp day expenses, and interest income were moved below the line.[10]

Q. How do you respond to Capt. Moore's statement that callback expense should be removed from the revenue requirement?

A. This is just one example of misleading testimony by Capt. Moore. PSP removed callback expenses from its revenue requirement in its direct case. This is reflected in my direct testimony [11] and shown in the Results of Operations model, [12] in which all Comp Day Expense, including callback days of $352,812, was moved below the line and properly restated out of the revenue requirement in accordance with Commission direction.

Despite the explicit and proper accounting treatment of Comp Day Expense, including callback days, by PSP in its direct case, Capt. Moore uses multiple pages to falsely accuse PSP of failing to remove callback days from the revenue requirement and goes so far as to boldly (and falsely) claim that:

> [V]igilant advocacy by PMSA and Staff is essential. Without careful review of every line item in PSP's exhibits, improper expenses like this $352,812 callback charge could slip through and burden ratepayers with costs the Commission has explicitly prohibited.[13]

[10] Exh. AML-1T at 33:14-16 ("interest income and comp day expense are presented below the line and are not included in the revenue requirement calculations"), see also, Exh. AML-1T at 34:1-3, and 42:21-22.
[11] Exh. AML-01T at 24:13-15, and 33:5 – 34:3.
[12] Exh. AML-03, sch. 1.2, 91 (showing zero dollars for Comp Day Expense included in TDNI).
[13] Exh. MM-01T 133:18-21.

Captain Moore's admonishment rings hollow. Either his testimony demonstrates his lack of knowledge of regulatory accounting, which he acknowledges,[14] or improper motives, given his false claim that PSP seeks recovery of callback days in the revenue requirement in violation of the Commission's prior order. Capt. Moore's testimony confirms that he understands Comp Day Expense to include callback-related expenses, as he uses the terms interchangeably in his testimony at Exh. MM-01T on pages 131-133. At a minimum, this demonstrates the need for the UTC to apply "vigilant advocacy" and "careful review" to PMSA's testimony, which has been demonstrated to be inaccurate and misleading.

Q. Can you please comment on witness Sevall's testimony that Pilot DNI is serving as the operating margin?[15]

A. Yes. I agree that this has been happening, as PSP has not earned its authorized DNI since ratemaking transitioned to the Commission. But pilot DNI should not serve as an operating margin, and pilots should have a reasonable opportunity to earn the authorized DNI set by the Commission.

Q. Can you provide an example of an unexpected operating expense that PSP may incur to comply with safety requirements?

A. Yes**.** On January 14, 2026, the Board of Pilotage Commissioners issued a letter advising PSP that a new class of LNG bunkering vessels using podded propulsion

[14] Exh. MM-01T at 12:25-13:1 (acknowledging that PMSA's witnesses do "not possess the high level of expertise in regulatory accounting possessed by UTC Staff").
[15] Exh. SS-1T at 10:6-7.

systems are expected to begin calling in the Puget Sound Pilotage District in the immediate future, and the BPC required that *all pilots receive specialized training in podded vessel operations regardless of license level prior to being assigned as the conning pilot.*[16]

Q. Why is that example relevant to the Commission's consideration of an operating margin?

A. It demonstrates that PSP can face unplanned but necessary operating expenses driven by safety requirements outside PSP's control. These costs can arise without sufficient lead time to incorporate them into an annual budget forecast or to fully reflect them in tariff rates before they must be incurred.

Q. Are these the types of expenses that an operating margin is intended to address?

A. Yes. PSP's proposed operating margin is designed to provide a reasonable opportunity to address regulatory lag and recover Commission-authorized operating expenses, including unexpected prudently incurred costs that are necessary to operate pilotage service safely and responsibly. Importantly, PSP proposes calculating the operating margin only on Commission-authorized operating expenses, which preserves the Commission's prudency oversight and mitigates Staff's concern about discretionary spending.

[16] Exh. ALM-17, Letter from BPC to PSP Re Azipod Training, Jan. 14, 2026.

Q. Does PSP have signed contracts for the training that will be necessary to address the specialized training in podded vessel operations?

A. Not yet. PSP expects contracts will be finalized soon, but the absence of signed contracts at the time rebuttal testimony is filed does not change the fact that the BPC has required the specialized training as a condition of assigning pilots to this anticipated vessel traffic. In response to the requirements in the January 14 letter, PSP's Board of Directors reviewed the training need and approved at their January 22, 2026 meeting up to $92,000 in simulator training expenses.

Q. What specifically did PSP's Board approve as related to the training requirements in the January 14 letter?

A. PSP's Board authorized the training committee to proceed with:

1. Development of a "Primary Pod" course package (not to exceed $5,000);
2. A "Pod/Z-drive refresher" simulator course for currently trained pilots (not to exceed $48,000); and
3. A "Primary Pod" simulator course for Level 0–3 pilots (not to exceed $39,000).

Together, these approvals total $92,000, subject to the Board's not-to-exceed limits.

Q. Why is this Board approval relevant to the Commission's consideration of an operating margin?

A. It demonstrates two things. First, PSP can and does face unplanned but necessary operating expenses driven by safety requirements outside PSP's control. Second,

PSP addressed this expense through a structured prudency process: formal Board review, capped authorizations, and unanimous approval, rather than open-ended spending.

Q. How should the Commission treat this example in evaluating PSP's proposed operating margin?

A. This example should be treated as illustrative of the type of safety-driven, non-discretionary cost variability PSP faces as part of operating a compulsory pilotage service with two primary regulators. It supports PSP's position that an operating margin is reasonable and consistent with Commission practice in other transportation industries where prudently incurred operating expenses can fluctuate materially between rate cases.

Q. What did Staff witness Sevall recommend with regard to the operating margin?

A. Staff witness Sevall ultimately recommended disallowance of PSP's proposed operating margin and rejected PSP's proposed rate setting methodology because witness Sevall didn't believe that PSP carried its burden.[17] However, witness Sevall also testifies that an operating margin may be appropriate for PSP because it is allowed for other transportation industries.[18]

[17] Exh. SS-1T at 4:3-4
[18] *Id*. at 4:6-9, *see also* discussion at 4:9–5:4.

Q. What reasons does witness Sevall provide for disallowing an operating margin rate setting methodology for the Puget Sound Pilotage District tariff?

A. Some reasons for disallowance provided by Staff include:

- The UTC's lack of control over "discretionary and non-discretionary" expenditures;
- The lack of clarity around whether other pilot districts employ an operating margin; and
- PSP's lack of comparability to other transportation companies.[19]

Q. Does PSP propose basing its operating margin on UTC-authorized expenses?

A. Yes. As proposed, PSP's operating margin would be calculated on UTC-approved operating expenses, consistent with other operating margin methodologies employed by the UTC.

Q. How do you respond to Staff's concerns about the UTC's lack of control over discretionary and non-discretionary expenses?

A. The UTC has the ultimate control over the recovery of PSP's discretionary spending. Basing the operating margin on UTC-authorized expenses indicates that the operating margin is being calculated on prudently incurred expenses, as determined by the UTC.

[19] *Id*. at 5:5–6:7.

Q. How do you respond to witness Sevall's reason for disallowing an operating margin because it is unclear if other pilotage districts have an operating margin?

A. If PSP was proposing an operating margin for DNI, which PSP has asked to be nationally benchmarked, it might be reasonable to benchmark operating margin nationally. However, PSP is explicitly requesting its operating margin be calculated on Commission-authorized expenses, grounded in Commission practice, not pilotage-district practices, with TDNI excluded.

Q. Please respond to witness Sevall's testimony that PSP lacks comparability to other UTC regulated companies?

A. Witness Sevall himself, in this same section of testimony, testifies that PSP is "similar to other transportation industries."[20] Bringing pilotage rate setting authority under Title 81 RCW and the domain of the Water and Transportation section of the UTC indicates there is some comparability to other transportation companies. PSP has also had its UTC rate setting recommendations and decisions guided by rules and practices of other UTC-regulated transportation companies.

[20] Exh SS-1T at 4:9-10.

Q. Please provide some examples of how PSP's rate setting has been compared to other UTC-regulated transportation companies.

A. The Commissioners acknowledged PSP's similarity to other UTC transportation companies when the Commission found that "Staff's proposal to update fuel costs is the most reasonable and consistent with Commission practice for other transportation industries."[21] Also, Staff acknowledged in its response testimony in this rate case that "[o]perating margins are used in other transportation industries, and so it may be appropriate to apply an operating margin to pilotage. Pilotage is similar to other transportation industries in that the revenues generated from the tariff greatly outpace their asset costs."[22]

Q. Do you agree with witness Sevall's recommendation to remove the operating margin from PSP's proposed formula?

A. I don't. Witness Sevall's recommendation to disallow an operating margin for PSP's proposed rate setting methodology ignores the rationale proposed by PSP, and the Staff reasoning seems flawed. PSP has proposed a reasonable methodology guided by comparable industry practices with modifications to comply with regulatory accounting and Commission requirements. I disagree that the foundation for pilotage rate setting cannot be based on methodologies utilized

[21] Docket TP-220513, Order 08 at ¶ 442.
[22] Exh. SS-1T at 4:8-11.

in comparable UTC industries, while being properly adjusted for its benchmarking duality, which has proven necessary for this industry.

Q. Did the Commission require parties to participate in rate of return methodology workshops?

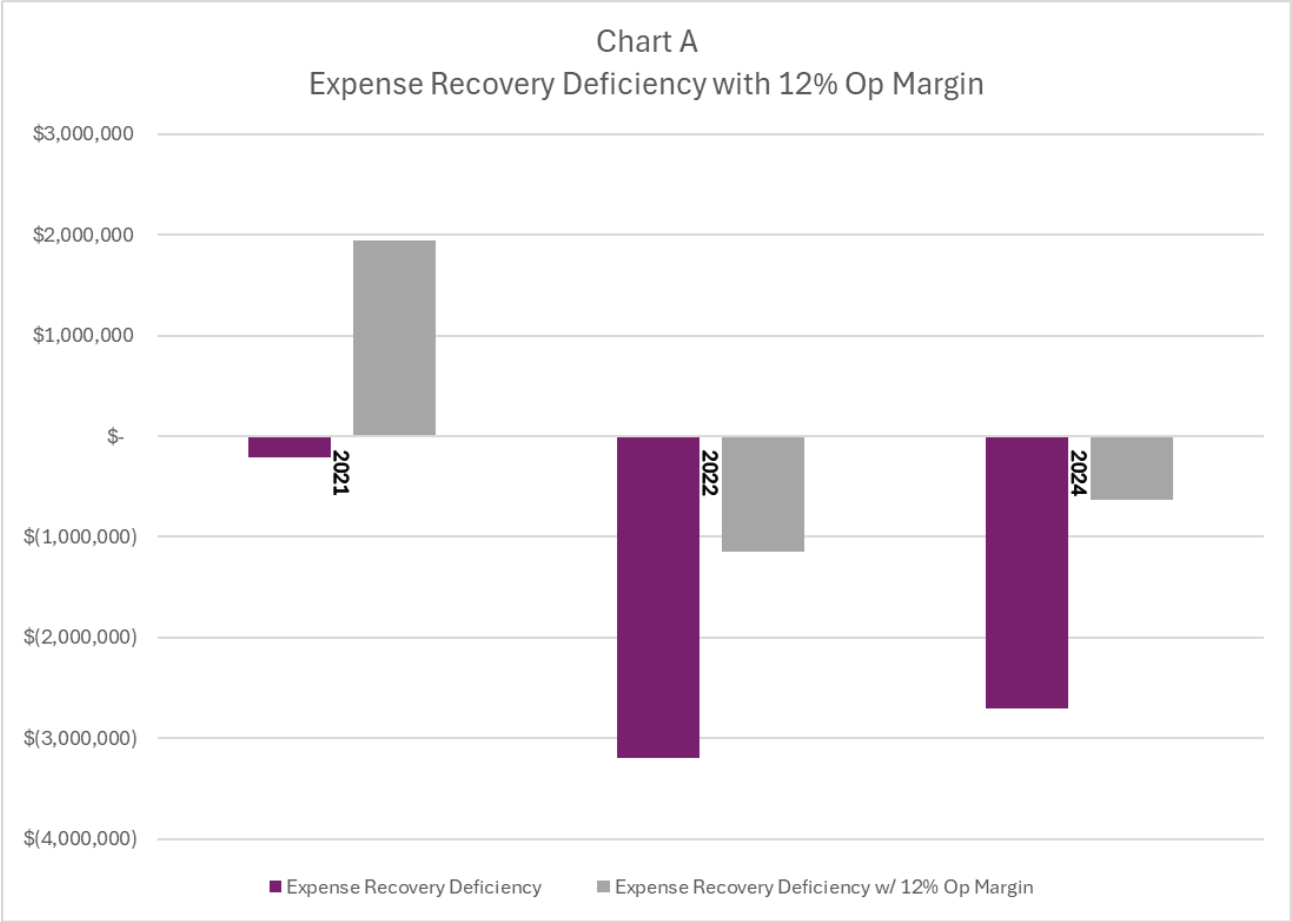
A. Yes, in both Docket TP-190976[23] and Docket TP-220513[24] the Commission required the parties to participate in rate of return methodology workshops. PSP introduced its operating margin methodology in the July 2024 workshop.

Q. Please respond to Capt. Moore's testimony that PSP is "requesting an entirely new operating margin formula in order to guarantee future increases in pilot DNI."[25]

A. I wouldn't consider this formula "entirely new" since it was discussed in the Staff-led workshop in July 2024 and subsequent workshops prior to submitting this rate case. The formula is also available on the Commission website. Capt. Moore's statement misses the point of an operating margin. During the first workshop, PSP stated that after the first year of the inaugural rate case's rate plan, a 12 percent operating margin would have reduced regulatory lag, but would not have been distributed as pilot compensation, as is shown in Chart A below.[26]

[23] *WUTC v. Puget Sound Pilots*, Docket TP-190976, Final Order 09 at ¶ 493 (Nov. 25, 2020) ("Order 09").
[24] Docket TP-220513, Order 08 at ¶¶ 62, 270.
[25] Exh. MM-01T at 15:18-20.
[26] Exh AML-13, Tab 1.

Unfortunately, the authorized pilot compensation and revenue requirement would still likely not have been achieved.



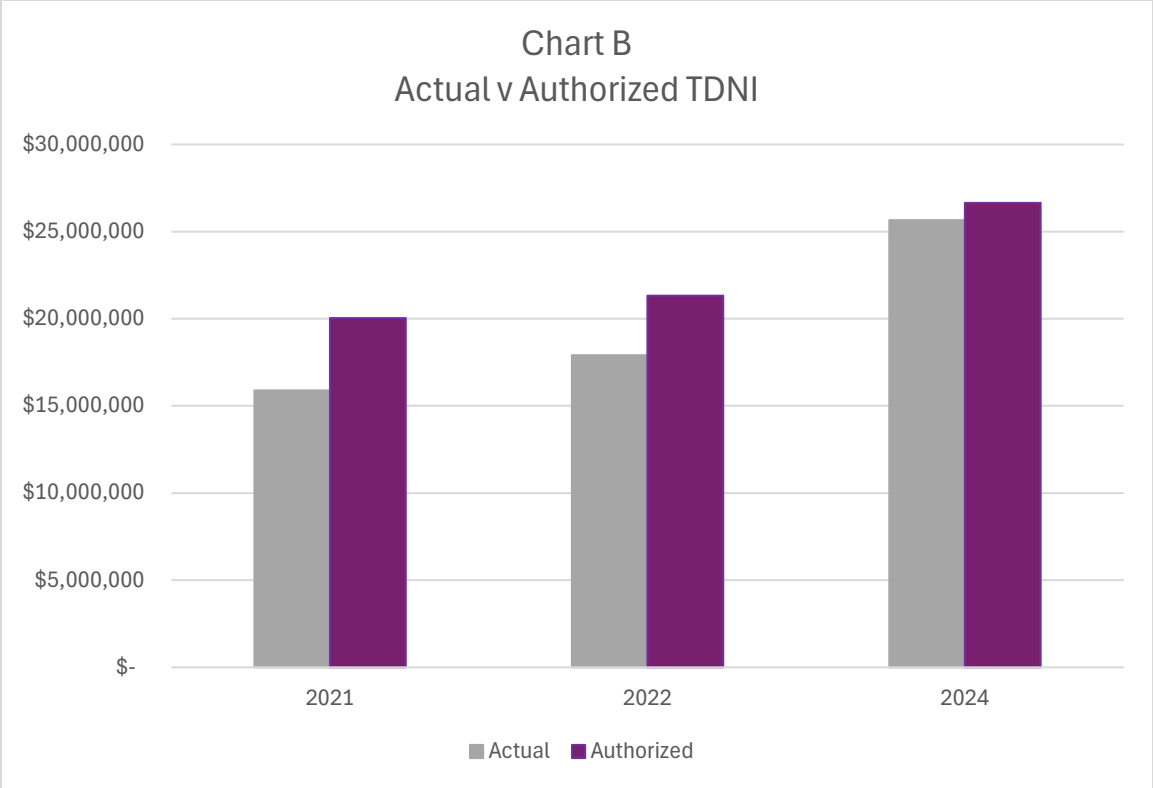
Q. Why is there no year 2023 in Chart A above, or Charts B or C below?

A. PSP has had two previous rate cases which resulted in three "rate years" - Docket TP-190976 set rates for the 2021 and 2022 rate years and Docket TP-220513 set rates for the 2024 rate year. For demonstrative purposes, the authorized rate year amounts are being compared directly to the actual financial information for the years 2021, 2022, and 2024. Since it's a regulatory "norm" that regulatory lag tends to increase the further away from the rate year, 2023 financial information was excluded because it didn't have a corresponding "rate year" for which to compare precisely.

Q. Since PSP's rate setting was transferred to the UTC, has PSP ever earned its authorized TDNI?

A. Unfortunately, no. And a change must be made. As is demonstrated in Chart B below, since PSP's rates have been under the purview of the Commission, PSP's actual TDNI has always fallen below authorized TDNI. Allowing an operating margin rate methodology would allow PSP a better opportunity to recover mandated and authorized expenses and regulatory lag between rate cases and, in turn, an opportunity to earn its authorized pilot compensation.[27]

[27] Exh. AML-13.



Q. Why should PSP's proposed operating margin and revenue requirement formula be approved in this rate case?

A. In this case, PSP took great care to identify the two distinct components of PSP's total revenue requirement through independent benchmarking requirements, and provided a reasonable operating margin as the basis on which to allow a return, consistent with other UTC transportation companies.

PSP has invested significant energy and resources adjusting to UTC regulation. PSP has pivoted to improve its UTC compliance and conform its filings to meet UTC required inputs. This rate case demonstrates PSP's commitment to

understanding the UTC rate setting process, conforming where possible, and seeking guidance when necessary.

In this docket, PSP has brought forward alternate rate setting proposals, revised the previously used models transparently, and consistently presented proposals for comparability. PSP proactively brought its operating margin proposal to the July 2024 Staff-led workshop with no alternatives or improvements proposed by the parties during the 12 months between the workshop and when PSP filed this rate case.

Bifurcating TDNI and its components as proposed by PSP enables a national comparison for pilot compensation. It also provides a structured presentation of PSP's operating expenses necessary to operate this compulsory pilotage service and provides an operating margin as a reasonable basis to set a return.

Furthermore, if the previous UTC rates for the Puget Sound Pilotage District had included a 12 percent operating margin, the operating margin would have been used to recover expenses related to regulatory lag rather than Pilot compensation.[28]

[28] Exh. AML-13 Tab 1 – Expense Deficiency and 12% Operating Margin.

IV. CAPITAL RECOVERY CHARGE AND PORTABLE PILOT UNITS

Q. Please discuss the purpose of PSP's proposed Capital Recovery Charge or CRC in this case.

A. Through the proposed CRC, PSP was requesting authorization from the Commission to create a surcharge mechanism that would recover specific essential capital improvement expenses for PSP's operations, as supported in PSP's five-year capital plan submitted with this rate case.

Q. What capital expenses were to be recovered in PSPs proposed surcharge?

A. PSP proposed to include all capital improvements identified in its capital plan for 2026 and 2027, except for the Portable Pilot Units ("PPUs").

Q. Why did PSP initially exclude PPUs from recovery under the CRC surcharge?

A. Since PPU expenses have previously been determined by the Commission to be necessary operating expenses for pilotage service in the Puget Sound Pilotage District, PSP requested recovery of these expenses consistent with those findings in previous rate cases.

Q. Commission Staff recommended disallowance of the CRC, the expenses related to the 2027 PPUs, and all "lease expenses" for the 2023 and 2027 PPUs. Can you first discuss Staff's reasoning for recommending disallowance of the CRC?

A. Staff witness Van Meter testified that PSP's capital recovery charge was proposed as a "permanent" rate to recover estimated costs and that PSP should have requested deferred accounting treatment for this surcharge.[29]

Q. Did PSP propose the CRC surcharge as a temporary rate?

A. Yes; as stated in my initial testimony, "[o]nce recovery for this phase of capital improvements is complete, this charge will sunset, until such time as another filing is submitted to update this charge."[30] Its temporary basis is indicated by its placement in the tariff, under Item 380: Special Surcharges.

Q. Why did it seem reasonable to include this proposed surcharge in the tariff under Item 380: Special Surcharges?

A. In Tariff 1, there was a rate under Item 380 that is no longer in the Puget Sound Pilotage District tariff because it was a temporary rate. Therefore, it seemed reasonable to propose that this temporary surcharge be placed under Item 380. However, PSP will comply with whatever the Commission determines is appropriate for the placement of this surcharge rate in the tariff.

[29] Exh. TVM-1T at 12:9–13:2.
[30] Exh. AML-01T at 39:4-6.

Q. Did PSP model its CRC on a recovery mechanism for another transportation industry?

A. Yes. PSP modeled its CRC proposal after the Commodity Adjustment mechanism used in the solid waste transportation industry because, as a pass-through, it trues up estimated revenues and expenses against actuals annually through a compliance filing.

Q. As defined in the rule for the solid waste transportation industry, a commodity adjustment filing is considered part of a deferred accounting program.[31] Is PSP agreeable to deferred accounting treatment of this surcharge?

A. PSP does not believe that deferred accounting is needed. However, if the Commission prefers that approach, PSP will comply with the mandates of the final order and input from Commission Staff.

Q. Did Staff inquire about the necessity of these capital improvements and offer alternatives for how these unavoidable costs should be handled in the regulatory accounting environment?

A. No.

[31] WAC 480-70-351(2).

Q. Do you agree with witness Van Meter's recommendation for this surcharge?

A. I do not. The capital recovery charge proposed by PSP was proposed as a temporary surcharge mechanism (under Item 380: Special Surcharges) to recover projected capital expenses, as supported by PSP's five-year capital plan, to be trued-up on an annual basis. PSP specifically proposed a surcharge mechanism to avoid surcharge funds being used in PSP's other operations or being distributed as DNI.

Q. Staff proposed two adjustments related to the PPUs. Please discuss adjustments S-01 and S-02.

A. Witness Van Meter recommends disallowance of the expenses related to the 2027 PPUs and then removes an additional amount for the 2023 PPUs with no adjustment number.

Q. Staff adjustment S-01 reduces PSP's pro forma Seattle depreciation expense (P-18) by $255,925 "which amounts to the difference between the test year depreciation for Pilot Portable Units (PPUs) purchased in 2023 and forecasted future depreciation for PPUs that are currently planned to be purchased in 2027."[32] Do you agree with this adjustment?

A. Tentatively, as further explained below.

[32] Exh TVM-1T at 7:13-16.

Q. For Staff adjustment S-02 (P-24), witness Van Meter testifies, "Pro forma adjustment 24 is for an increase of lease expense in the amount of $144,699. Staff recommends removing its effect on revenue requirement through Staff adjustment S-2, which recommends the elimination of all lease expense related to the PPUs."[33] Then witness Van Meter testifies that Staff is recommending disallowance of PSPs "lease expense" in the amount of $144,699, but removes $676,338 – all of PSP's pro forma PPU expenses. Do you agree with this adjustment?

A. In part, as further explained below.

Q. Please explain your reservations regarding witness Van Meter's proposed adjustments S-01 and S-02.

A. Proper regulatory accounting adjusts test year amounts, which was not entirely reflected in some of Staff's testimony. I've revised PSP's PPU-related adjustments (P-18 and P-24 in Exh. AML-03) in a manner that reflects certain adjustments that may also be aligned with Staff's intent. These changes are reflected in Exh AML-10 as described below:

- For S-01 (P-18), I first removed the 2027 PPUs from PSP's regulatory depreciation schedule, Sch 2.03 Reg Depr, which removes $610,540 of pro forma depreciation expenses (P-18r - adjustment #1). Next, I revised the sum total calculation (on row 51 of this same schedule) to include the 2023 PPU

[33] Exh TVM-01T at 8:1-4.

pro forma depreciation expenses of $354,614 (P-18r - adjustment # 2). With these adjustments, only the computer depreciation expense adjustment is necessary, and P-18r is $8,800. PSP agrees with this adjustment, as revised.

- For S-02 (P-24), the adjustment to recover the increased costs of the 2027 PPUs ($144,699) has been removed (P-24r) leaving PPU payment expenses (Acct 51210-009) at the test year amount of $531,639. PSP agrees with this adjustment.

PSP does not agree with witness Van Meter removing the total PPU pro forma expenses of $676,338, including $531,639 of previously authorized expenses, when removal of only $144,699 would be appropriate.

Q. Why is it improper to remove previously authorized expenses?

A. It would be retroactive ratemaking to remove previously authorized expenses from rate recovery. In the previous rate case, the Commission authorized the expenses related to the 2023 PPUs to be recovered over four years, and therefore those expenses will not be fully recovered until 2027. PSP should be allowed to recover this expense through the Commission-approved amortization period.

Q. What do you recommend for the adjustments proposed by PSP for PPUs?

A. I recommend the Commission approve PSP's adjustments P-18r and P-24r as revised in Exh. AML-10 and explained above. I also recommend the Commission allow PSP to fully recover the expenses for its 2023 PPUs.

V. ATTORNEY FEES & PENSION

Q. In its initial case, PSP requested authorization from the Commission to recover general legal expenses. Did Staff respond to this in testimony?

A. No.

Q. Staff recommends removing $170,000 of attorney fees, which affects PSP's proposed restating adjustment R-13 and pro forma adjustment P-06. Please summarize Staff's adjustment S-05.

A. Staff recommended disallowance of $170,000 of legal expenses, including $118,000 of legal expenses (R-13) which PSP reclassified from UTC legal expenses (Acct 50110-009) to general legal expenses (Acct 50100-009) and $51,000 of pro forma general legal expenses proposed by PSP (P-06).

Q. Why does Staff witness Van Meter recommend disallowing $118,000 of legal expenses from recovery in this rate case?

A. Witness Van Meter recommends deferring recovery of these expenses because they are "for a retirement plan that is not yet in place, or used and useful."[34]

[34] Exh TVM-1T at 4:12-13.

Q. Please explain why you disagree with Ms. Van Meter's recommendation to delay recovery of $118,000 of general legal expenses.

A. PSP incurred these expenses as a direct result of a Commission order that instructed PSP to move forward with seeking approval of its multiple employer defined benefit plan. The Commission did not require these expenses to be deferred or treated differently than an operating expense.[35] Therefore, PSP should be allowed recovery of these expenses as proposed, which is consistent with prior treatment. Staff failed to provide support for its recommended changes, which differ from the treatment of these expenses in past cases

Q. Please explain why you disagree with witness Van Meter's recommendation to remove $51,000 of pro forma legal expenses.[36]

A. The purpose of a pro forma adjustment is to adjust test year expenses for known and measurable changes, which is what this adjustment does. I do not understand the reason for witness Van Meter's adjustment.

Q. What is your recommendation for Staff adjustment, S-05?

A. PSP properly supported its pro forma legal expenses and is requesting authorization to recover these prudently incurred expenses in rates. This request is fair and reasonable, and the Commission should allow recovery of pro forma legal expenses as proposed in PSP's initial case.

[35] Docket TP-190976, Order 09 at ¶ 423.
[36] Exh. TVM-1T at 5:11-15.

Q. Can you please briefly discuss Capt. Moore's repeated and unsupported claims that rate recovery should be disallowed for certain legal and consulting expenses, including those recovered under rate case costs?

A. PSP has appropriately requested in this rate case Commission authorization to recover prudently incurred expenses for providing compulsory pilotage service in the Puget Sound Pilotage District. As I testified initially, as pilotage rate setting is refined, it is reasonable to see costs changing and shifting as PSP conforms to the UTC.[37]

Q. Please discuss PSP's general legal expense recovery request in this case.

A. As stated in my initial testimony, PSP's general legal expenses in the test year were a modest $1,733, and its requested pro forma general legal expenses are half as much as the amount in question in the previous case. PSP is requesting that the Commission recognize that PSP must incur legal expenses, sometimes outside its control, for non-UTC issues and allow recovery in rates of a reasonable amount of general legal expenses. PSP's adjusted test year legal expenses are $120,000.[38] And with pro forma adjustment P-06, PSP is requesting general legal expenses of $173,000 be recovered in rates.[39] This amount is 52 percent less than PSP's 2021 test year general legal expenses.[40] To continue to require pilot compensation to subsidize these expenses is unsupported.

[37] Exh. AML-01T at 75.
[38] Exh. AML-03 Sch 1.2 Results of Operations.
[39] Exh. AML-03 Sch 1.2 Results of Operations.
[40] Docket TP-220513, Exh. WTB-05, Results of Operation

Q. How do you respond to Capt. Moore's repeated testimony that PSP has requested excessive consultant expense recovery?

PSP's operations include pilots, an executive director, four office staff, four dispatchers, and 12 boatman. Consequently, PSP engages professionals periodically and, following Commission direction, PSP seeks advice and guidance from non-legal sources whenever possible, which aided in such a drastic decrease in legal expenses. The situations requiring PSP to previously seek general legal advice didn't go away, so it is reasonable there would be an increase in expenses for other professional services.

Q. Capt. Moore also testifies that PSP has requested excessive rate case cost recovery. How do you respond?

In its effort to conform to UTC regulation, PSP has expended a significant amount of energy and resources, as evidenced in this rate case, and prudently incurs its rate case expenses. PSP has proposed and supported several substantial changes in this rate case to comply with Commission direction and bridge the gap between PSP's current rate setting methodology and a more refined and transparent rate case process, based in sound regulatory accounting principles, while acknowledging the independent authorities of the BPC and the UTC.

The Commission acknowledged the reasonableness of increasing rate case costs in Docket TP-220513, as pilotage rate setting at the UTC is refined.[41] Moreover, while PSP's rate case costs have increased, each case has gotten a little closer to the mark. PSP is complying with Commission direction by proposing alternatives to PSP's current UTC rate setting process, focusing its case on the economic factors relevant to UTC rate setting, streamlining its rate case submittal, and supporting its proposal with testimony addressing previously raised concerns and methodologies to institute its proposals. To assume and testify that PSP's UTC rate setting is no longer novel simply because this is the third rate case is not reasonable.

Q. Capt. Moore recommends disallowance of any further recovery of prior rate case expenses. How do you respond?

A. To disallow PSP the opportunity to fully recover previously authorized expenses would be retroactive ratemaking. Additionally, the Commission has determined that full recovery of prior rate case expenses should be allowed.[42]

[41] Docket TP-220513, Order 08 at ¶ 281 ("This proceeding represents PSP's second general rate case before the Commission, and we are hesitant to limit rate case legal fees in the context of a relatively novel proceeding").

[42] *Id.* at ¶ 282.

VI. TRANSPORTATION

Q. Is PSP's witness Capt. Klapperich testifying in response to witness Van Meter's transportation charge recommendation?

A. Yes. My testimony is to provide regulatory context for Capt. Klapperich's testimony, which responds to witness Van Meter's testimony.

Q. Which of PSP's adjustments are related to Pilot Transportation?

A. PSP proposed one restating adjustment (R-24) and one pro forma adjustment (P- 12) for pilot transportation.

Q. PSP's current transportation charge has remained unchanged since it was set in PSP's inaugural case in Docket TP-190976. The rate of $168.20 was based on test year (2018-2019) transportation expenses, and Staff recommended disallowance of PSP's adjustment to increase its transportation expenses.[43] Please explain how this has affected PSP's recovery of actual transportation expenses since.

A. As with some of the other rates in the inaugural case, the low transportation rate failed to recover actual pilot transportation expenses. As demonstrated in Exh. AML-15, since the current transportation charge was implemented, PSP has under-recovered approximately $41 on average for each transportation charge invoiced, for a total loss of $1,420,000 from February 2021 through December

[43] PSP Proposed a Transportation Charge of $198.37 in its inaugural case.

2025. And because PSP has no operating margin, this transportation charge has been subsidized by pilot compensation for five years.

Q. Staff witness Van Meter recommends an increase to PSP's transportation charge through Staff adjustment S-08.[44] What concerns do you have with witness Van Meter's analysis and recommendation.

A. Witness Van Meter's recommendation is unsupported and should be rejected by the Commission. Witness Van Meter testifies that this rate has remained unchanged for an extended period of time and acknowledges that this rate should be increased. PSP agrees. However, PSP does not agree with witness Van Meter's decision to increase the rate in line with yearly inflation nor her recommended rate of $219.12, especially when Staff's own analysis indicates a larger increase may be justified. [45]

Q. Please explain how PSP supported its request to increase the transportation charge to $233.93 and realign this rate to recover pilot transportation expenses.

A. In this rate case, Capt. Klapperich addresses concerns previously raised by the Commission about the transportation charge and pilot transportation expenses. This includes affiliate transaction disclosure (discussed below), updated policies and reporting, and proper expense support.

[44] Exh. TVM-1T at 7:1-6.
[45] Exh. TVM-1T 17: 13-17.

Q. Why don't you agree with Staff's recommendation to adjust PSP's transportation charge by inflation as proposed by witness Van Meter?

A. Regulatory accounting employs averages and inflation adjusters periodically for many reasons, but those methods shouldn't be used in place of reliable actual information and data when it is available for setting fair and just rates, as it is in this rate case. It is also important to note that these methods only provide dependable results if applied to accurate base amounts, which seems to be in question in this case. It is unreasonable to use Staff's inflation-adjusted recommended transportation charge in place of PSP's proposed charge of $233.93, which is supported by actual expense data.

Q. What other information can PSP provide to support its proposed transportation charge of $233.93?

A. PSP compiled a worksheet that tracks PSP's pilot transportation costs since its first tariff was issued by the Commission.[46] This exhibit expands the data set from Sch 2.25 Transpo of Exh. AML-03 and Exh. AML-10 to include pilot transportation expenses from February 2021 through the 2024 test year, and also includes expenses for 2025. This data demonstrates PSP's under-recovery of transportation expenses through the 2024 test year and supports PSP's testimony and proposals in this case.

[46] Exh. AML-15.

Exh. AML-14 provides PSP's actual pilot transportation data for 2025. This data supports the reasonableness of PSP's request to set the Transportation Charge at $233.93.

Q. What do you recommend regarding pilot transportation expenses and the rate to recover these costs?

A. The Commission should authorize an increase in Item 340: Transportation Charge to $233.93 to allow PSP the opportunity to recover pilot transportation expenses required to serve the Puget Sound Pilotage District.

Q. Pilot transportation expenses and proper rate recovery have been challenging and time-consuming topics in each rate case. How do you propose adjusting the Transportation Charge going forward?

A. Because pilot transportation expenses are solely recovered through the Transportation Charge and account for such a small amount of the revenue requirement request, an annual inflation adjuster for the Transportation Charge may be appropriate. PSP's documented actual pilot transportation expenses provide a reasonable base for adjusters.

Q. How do you respond to the allegations from PMSA witness Capt. Moore about transportation expenses?

A. Capt. Moore disregards the steps that PSP has taken to provide guardrails around pilot transportation expenses and the recent revisions to PSP's travel polices, in

compliance with Order 08 and Order 09. He also ignores the additional documentation provided in PSP's direct case including the testimony provided by Capt. Klapperich, which addresses previously raised concerns around the recovery of pilot transportation expenses and explains the necessity and reasonableness of the transportation system necessary to provide pilotage services in the Puget Sound Pilotage District and its related prudently incurred costs.

Q. Can you comment on Capt. Moore's testimony that this rate is "now funding repositions?"[47]

A. As the staff auditor for transportation expenses in the inaugural case, I can say that reposition expenses have been recovered in rates since the transportation charge was established in Docket TP-190976.

VII. AFFILIATES

Q. Why did you address affiliates in your initial testimony?

A. In the previous case, the Commission admonished PSP saying it didn't "adequately address the concern with affiliated interest transactions discussed in the Commission's prior order."[48] And the Commission disallowed a transportation charge increase. Therefore, Section XI of my initial testimony was

[47] Exh. MM-1T, 115:4 – 5:3.
[48] Docket TP-220513, Order 08 at ¶ 350.

dedicated to explaining PSP's affiliates and related vendor transactions. Capt. Klapperich also discusses affiliates in his initial testimony.

Q. Did Staff respond to your testimony regarding affiliates?

A. Witness Van Meter testifies that PSP's affiliated transportation vendor transactions were reasonable, but doesn't explicitly address the reasonableness of PSP's affiliated transactions with Pilot Technical Services II ("PTS II"), the entity through which PSP now purchases its PPUs. However, as demonstrated in this rate case, PSP has been properly transacting with its affiliates, often at a lower than market rate, and any possible affiliated transactions are reasonable and fair.

Q. In the absence of an affiliated interest rule for marine pilotage, did Staff provide any guidance for PSP's affiliated interest transactions going forward?

A. No.

Q. What would you recommend regarding PSP's transactions with affiliates going forward?

A. PSP's affiliated interest transactions are undertaken at arm's length. PSP's affiliated transportation vendor transactions account for less than 1.5 percent of total operating expenses, and PTS II accounts for less than three percent of PSP's total operating expenses. Together, PSP's affiliates comprise less than 4.5 percent of PSP's total expenses. Therefore, I would recommend that the Commission

make a determination that PSP's transactions with affiliates, including both transportation vendor transactions and PTS II transactions, are reasonable.

VIII. PORT ANGELES EXPENSE CHARGE AND TARIFF CHANGES

Q. PSP proposed revisions to the Pilot Boat Charge: to rename it the Port Angeles Expense Charge, under Item 330 in the tariff; add clarifying language; and revise the rate to recover the operating expenses related to PSP's Port Angeles operations. Did witness Van Meter recommend approval of this adjustment?

A. In part. It appears witness Van Meter generally supports the Port Angeles Expense Charge as proposed by PSP but disagrees with the additional clarifying language being added to the tariff.

Q. What was the original language used in the tariff for Item 330: Pilot Boat Charge?

A. In the original tariff, Item 330: Pilot Boat Charge stated: "For each embarkation and/or disembarkation at Port Angeles, a Pilot Boat Charge shall be assessed at the stated rate."[49]

[49] Tariff 2.

Q. How does PSP assess this Charge?

A. PSP assesses the Pilot Boat Charge (and going forward the Port Angeles Expense Charge) as required by the tariff, on each embarkation and disembarkation (pilot transfers) at Port Angeles.

Q. What is the clarifying language PSP is proposing be added to Tariff 3 for the Port Angeles Expense Charge?

A. PSP is proposing to add the following language related to the Port Angeles Expense Charge to Tariff 3:

> Applicability of rate when a PSP-operated pilot boat is unavailable. If the pilot boats are unavailable, a third-party launch service, acceptable to the pilot assigned to the vessel, must be used for embarkation or disembarkation. The vessel receiving service is responsible for the charges invoiced by the third-party launch, in addition to the Port Angeles Expense Charge.

Q. The original language in the tariff stated that the Pilot Boat Charge was assessed on all embarkations and disembarkations. Why was it necessary to add language clarifying financial responsibility for third-party launch services in Port Angeles?

A. PSP pilots utilize third-party launch services regularly in every port except Port Angeles, because PSP operates the Port Angeles Pilot Station and maintains two pilot boats for embarkations and disembarkations in Port Angeles. The Pilot Boat Charge was intended to be assessed on all embarkations and disembarkations in Port Angeles, even if a third-party launch service is used. The number of embarkations and disembarkations at Port Angeles does not change if the

availability of PSP's pilot boats changes, and the same amount of expenses must be recovered per embarkation/disembarkation given the way this rate is calculated.

Q. Why is this an important distinction?

A. The Pilot Boat Charge will now be called the Port Angeles Expense Charge, and it has been revised to recover the expenses incurred for operating the Port Angeles Pilot Station, including employee salaries, the operations and maintenance of the Port Angeles Pilot Station, and other identifiable expenses. For recovery, those expenses are spread across the number of embarkations and disembarkations (pilot transfers) in Port Angeles, consistent with prior treatment. Therefore, the Port Angeles Expense Charge rate must be assessed on each embarkation and disembarkation, regardless of the use of a pilot boat, to ensure the proper recovery of expenses.

Q. Explain why you disagree with witness Van Meter's analysis and recommendation that the clarifying language not be added to Item 330 in the tariff.

A. This Port Angeles Expense Charge rate is designed to be assessed, as is customary, on each embarkation and disembarkation, to properly recover the costs associated with PSP's operations in Port Angeles, regardless of the use of a pilot boat. To disallow the clarifying language would result in under-recovery and require PSP to incur additional expenses inconsistently with all other ports.

Q. In your initial testimony in this case, one of the reasons given for renaming the Pilot Boat Charge to the Port Angeles Expense Charge was to clarify the purpose of this rate. How do you respond to witness Van Meter's testimony that PSP is seeking to recover pilot boat expense even when the pilot boats are not being used?

A. My initial direct testimony stated the purpose of renaming the charge was "to better reflect the purpose of this rate, which is not specific to the use of the pilot boats."[50] Therefore, PSP's proposal for this rate is to bifurcate the rate from the use of a pilot boat and to allow proper cost recovery of all of the Port Angeles operating expenses.

Q. How does Staff recommend PSP recover third-party launch expense when it is incurred in Port Angeles?

A. Staff witness Van Meter recommends that, unlike PSP's accounting practice in every other port, any third-party launch expenses incurred in Port Angeles should be considered operating expenses and recovery requested in the next rate case.[51]

[50] Exh. AML-01T 34:11-12.

[51] Exh. TVM-01T 19:5-6. Temporary launch service is an operational expense of the Port Angeles pilot house when Pilot Boats are not available.

Q. What is indicated by the fact that PSP had no third-party launch expenses during the test period, as witness Van Meter testifies?[52]

A. That is consistent with PSP's practice, which requires any third-party launch services utilized by a PSP pilot in every port to be invoiced to the ratepayer requiring the service. PSP does not incur third-party launch expenses; its ratepayers incur and pay those expenses.

Q. Witness Van Meter testifies, "During the planned outage of the Puget Sound pilot boat there is more potential for the need for a third party launch service to get pilots to and from vessels."[53] What does Staff recommend for recovery of these "potential expenses," which are expected to begin about the same time this rate case ends?

A. For the six months that it is estimated the pilot boat Puget Sound will be unusable because of the planned mid-life refit, witness Van Meter testifies that "any temporary launch service expense required should be mitigated with the inclusion of a full 12-month calculation of fuel for the Puget Sound pilot boat and have minimal impact to the pilot house operating expenses."[54]

Q. Do you agree with this testimony?

A. I do not. PSP only operates one pilot boat at a time. It has two boats for redundancy. If one is out of service, the fuel cost is the same as operating two

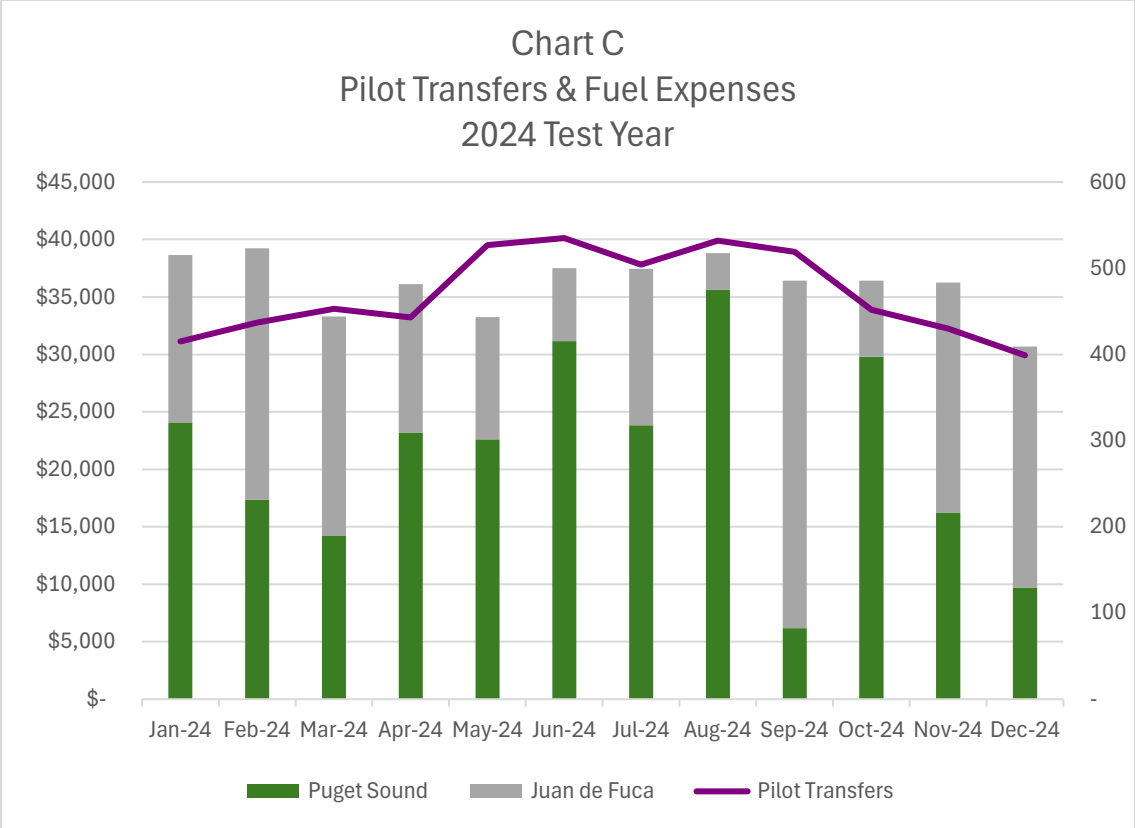
[52] Exh. TVM-01T at 20:6-9.
[53] Exh. TVM-01T at 20:16-17.
[54] Exh. TVM-01T at 20:16 – 21:2.

vessels. And for Staff to suggest that a regulated company may incur additional operating expenses, and then assume that the regulated entity will somehow have "savings" elsewhere that will mitigate these expenses, is not sound regulatory ratemaking. This is especially true when it is understood that any unrecovered expenses must be subsidized through pilot compensation.

Q. Chart C represents PSP's test year fuel expenses and pilot transfers (embarkations/ disembarkations).[55] What can be discerned from this information?

A. This information shows no correlation between the availability of a pilot boat and fuel expenses, as witness Van Meter testifies.

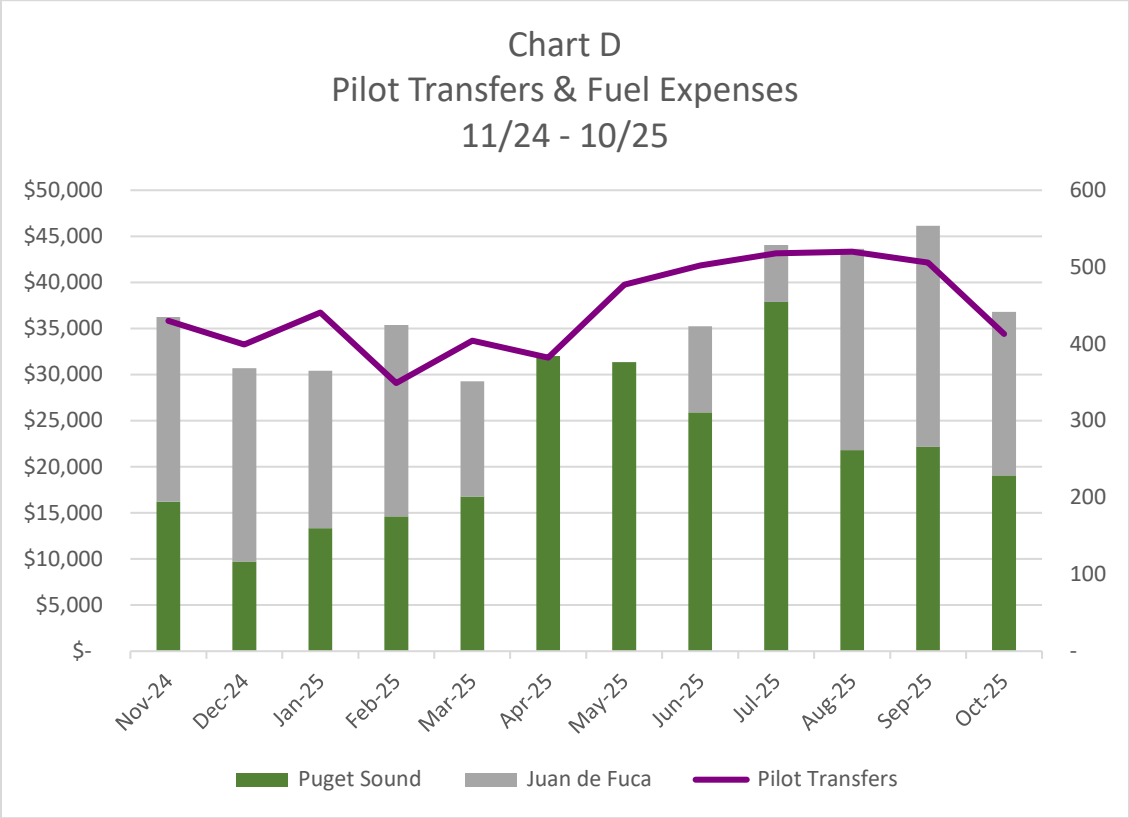
[55] Exh AML-16.



Q. The pilot boat Juan de Fuca, as PSP has testified, was unavailable during 2025 while its engines were rebuilt. Does updated fuel expense data support Staff's testimony regarding the assumed savings for PSP by Staff allowing 12 months of fuel expenses?

A. It doesn't. Staff requested updated fuel expenses during the discovery process through October 2025, in which the pilot boat Juan de Fuca was having its engine rebuilt and was unavailable. As can be seen in Chart D, the availability of the pilot boat Juan de Fuca, which has no fuel expenses in April or May 2025, had no

effect on embarkations or disembarkations and had no correlation to PSP's total fuel expenses.[56]



Q. How do you respond to witness Van Meter's justification for disallowing this clarifying language change?

A. To disallow this proposed change, which is intended to clarify an existing practice, makes no regulatory sense. Witness Van Meter's description of some perceived savings is regulatorily unsound. The PAX Charge is intended to recover certain expenses over the number of embarkations and disembarkation. Staff incorrectly assumes this number is somehow within PSP's control and

[56] Exh AML-16.

testifies that "with the full 12-month calculation of fuel for the Puget Sound pilot boat", PSP should recognize savings because the pilot boat Puget Sound will be unavailable for 6 months. PSP cannot serve half of the embarkations and disembarkations simply because the pilot boat Puget Sound is unavailable.

Q. Why do you recommend that the Commission allow PSP's clarifying language for Item 330: Port Angeles Expense Charge?

A. The Commission should allow this clarifying language to Item 330: Port Angeles Expense Charge because PSP must charge this rate on all embarkations and disembarkations in Port Angeles in order to properly recover Port Angeles operating expenses. Additionally, in every other port served by PSP, any third-party launch service is invoiced directly to the ratepayer receiving pilotage service, and Staff has not supported its recommendation for changing this invoicing practice. Therefore, to ensure proper cost recovery through the Port Angeles Expense Charge, and to provide consistent treatment of third-party launch services, PSP's clarifying language should be included in the tariff.

IX. VESSEL TRAFFIC

Q. Did PSP specifically request clarification of WAC 480-07-525(4)(m) in its direct testimony?

A. Yes. PSP requested clarification of this subsection to ensure compliance in future rate cases and proper cost recovery in tariff rates.

Q. Section 4 of WAC 480-07-525 identifies the workpapers that must be included with each marine pilotage general rate case. What workpaper is identified in subsection (4)(m)?

A. Subsection (4)(m) requires a workpaper that provides "[p]rojected changes in vessel assignments and a detailed portrayal of vessel assignments for the previous twelve months along with the associated tariff and fees charged to vessel operators for pilotage services as required in chapter 480-160 WAC."[57]

Q. Please describe the vessel traffic data that was provided in PSP's direct case?

A. PSP provided test year and pro forma vessel traffic data in its direct case. PSP based its revenue requirement and proposed rates on test year traffic. Exh. AML- 03, Sch .211 provides 2024 test year vessel traffic. Pro forma vessel traffic is supported in Exh IC-14, which provides test year traffic with known and measurable changes for cruise and articulated tug barge ("ATB") traffic and supports adjustment P-22. Exh. IC-14 was updated in rebuttal, and the updated results can be found in Exh. IC-32.

Q. Why didn't PSP propose rates based on "projected changes in vessel assignments"?

A. When regulated cost-based rates are being determined, proper rate design generates the revenue necessary to recover the cost of service, plus a return. To

[57] WAC 480-07-525(4)(m).

simply change vessel traffic data wholesale would result in a mismatch. Customer data, or traffic data for pilotage, is directly linked to the cost of service.

To establish proper cost recovery, the rates created are based on a restated test year with pro forma adjustments. This method ensures that the rates are set to generate the necessary revenue to recover the adjusted test year expenses for the same period of time (matching principle). The rates in the Puget Sound Pilotage District are generally set to be recovered through its pilot assignments determined by vessel traffic.

Q. In Docket TP-220513, the Commission stated, "Projected vessel assignments are crucial to setting rates at an appropriate level that allows PSP to recover its authorized revenue requirement."[58] Do you agree with this statement?

A. I agree that vessel traffic is a component of pilotage rate setting, but "projected" must be defined to provide consistent rate making treatment going forward. PSP is committed to providing the necessary information for proper rate setting as determined by the UTC.

Q. Has Capt. Carlson updated his "projected" vessel traffic in rebuttal, similar to the information PSP provided in its direct testimony in this case?

A. Yes. Capt. Carlson provides Exh IC-32r, which is based on actual 2025 assignments with known and measurable changes for 2026.

REVISED VERSION

[58] Docket TP-220513, Order 08 at ¶ 380.

Q. What is the difference between Capt. Carlson's projected traffic amount and the test year vessel traffic?

A. There is a difference of about ~~400~~ 474 assignments.

REVISED VERSION

Q. Capt. Carlson has recommended that the Commission set the Puget Sound Pilotage District rates on PSP's "projected" traffic as submitted in Exh. IC- 32r. Do you agree?

A. I believe that the Commission should use the projected traffic level in Exh. IC-32r of ~~7,186~~ 7,114 assignments to set the Puget Sound Pilotage District Tariff 3 rates in this case. The Commission has previously been using the "projected" traffic for determining the Puget Sound Pilotage District tariff rates, and therefore, it may be most appropriate to continue this practice for now.

With pilotage rate setting so new at the UTC, any changes should be well-reasoned and well-researched. A workshop to further define the requirements of WAC 480-07-525(3)(m) including "projected changes in vessel assignments," what time period should be used for the "detailed portrayal of vessel assignments for the previous twelve months along with the associated tariff and fees charged to vessel operators," and how these requirements fit in the rate setting process might be useful to PSP and Staff.

X. CONCLUSION

Q. Does that conclude your testimony?

A. Yes, it does. Thank you.