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

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND PILOTS,** **Respondent.**	**DOCKET TP-190976**

REVISED TESTIMONY OF

Ann M. C. LaRue, CPA

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Result of Operations

May 27, 2020

Revised July 13, 2020

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Ann M. C. LaRue, 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 ann.larue@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 an Accounting Policy Specialist in the Water and Transportation Section.

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

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

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

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

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

Q. Have you testified previously before the Commission?

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

II. SCOPE AND PURPOSE OF TESTIMONY

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

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

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

R-10 Restating Depreciation;

[1] Burton, Exh. WTB-1T.

R-17 Restating Transportation Expense;

R-18 Entertainment and Travel;

R-19 Restating Attorney Fees;

PF-1 Pro Forma Attorney Fees;

PF-2 Pro Forma Attorney Fees;

PF-3 Pro Forma Consulting Fees.

Q. Please summarize your recommendation.

A. I recommend a revenue requirement increase of $1,827,495, based on the modified historical test year approach.

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

A. Yes. I prepared Exhibits AMCL-2r (revised 7/13/20) through AMCL-14. Exhibit AMCL-2r (revised 7/13/20), which is a multipage exhibit, shows PSP's operating results. Included in this exhibit are:

- Results of Operation (Schedule 1.1r) (revised 7/13/20);
- Restating Adjustments (Schedule 1.2);
- Pro Forma Adjustments (Schedule 1.3);
- Depreciation Analysis (Schedule 1.4).

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

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

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

III. SUMMARY OF TESTIMONY

Q. Please summarize PSP's requested revenue increase.

A. PSP initially calculated a total revenue requirement of $48,027,598.[2] This is an increase of $13,917,658, or 40.8 percent, over test year revenue. However, in order to mitigate the rate shock of such an increase in revenue, PSP has proposed to phase in its revenue requirement over a three-year period as follows:[3]

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

[2] Burton, Exh. WTB-1T at 14:9.
[3] *Id*. at 14:9-18.

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

A. Staff determined that the requested revenue requirement was excessive. Mr. Burton states that the revenue generated at the Pilots' proposed rates, for the first year, is approximately $43,000,000, and the Total Distributable Net Income (TDNI) is approximately $27,000,000. Staff's analysis, however, shows the total revenue requirement to be $35,937,435, with a TDNI of $20,836,161. Furthermore, and as discussed by Mr. Sevall, Staff determined that the resulting increase to rates under Staff's analysis is not so severe as to merit a rate plan to mitigate rate shock to ratepayers.

IV. DISCUSSION

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

A. I testify to Staff's recommended revenue requirement for PSP's operations, as shown in Exhibit AMCL-2r (revised 7/13/20), Results of Operations. This exhibit shows actual and pro forma results of operations along with the impact of Staff's revenue requirement. I also prepared additional schedules (Schedule 1.2, 1.3, and 1.4) within this exhibit that provide support for the results. In addition to my adjustments, results of calculations from other Staff witnesses are incorporated into this exhibit.

Q. What specific adjustments are you responsible for?

A. I am responsible for the following adjustments:

- Depreciation, R-10;

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

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

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

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

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

[4] WAC 480-160-020.

Q. Please give a brief overview of your Exhibit AMCL-2r (revised 7/13/20), entitled *Puget Sound Pilots, Results of Operation, 12 Months Ended June 30, 2019*.

A. Exhibit AMCL-2r (rev. 7/13/20) is a four-worksheet exhibit showing Staff's analysis of PSP's results of operations for the test year ended June 30, 2019. Page one of this exhibit, labeled Schedule 1.1r (rev. 7/13/20), Results of Operations, has eight columns.

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

Column (c) of my exhibit reflects Staff's total restating adjustments; these amounts are taken from column (b) of Schedule 1.2, Restating Adjustments (Exhibit AMCL-2r (revised 7/13/20)).

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

Column (e), reflects Staff's total pro forma adjustments; these amounts are taken from column (b) of Schedule 1.3, Pro Forma Adjustments (Exhibit AMCL-2r (revised 7/13/20)).

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

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

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

Finally, the last worksheet, Schedule 1.4 (Exhibit AMCL-2r (revised 7/13/20)) details Staff's depreciation analysis.

V. ADJUSTMENTS

A. Depreciation

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

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

Q. Did you review this adjustment?

A. Yes.

Q. Is Staff contesting this adjustment?

A. Yes.

Q. Please explain your rationale for contesting PSP's proposed depreciation adjustment.

[5] Burton, Exh. WTB-1T at 8:20-21.

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

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

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

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

[6] LaRue, Exh. AMCL-2r (revised 7/13/20), Sch. 1.4; LaRue, Exh. AMCL-3, Table 2.
[7] LaRue, Exh. AMCL-3, Table 3.
[8] LaRue, Exh. AMCL-2r (revised 7/13/20), Sch. 1.4.

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

B. Transportation Expense

Q. Please summarize the Pilots' adjustment to its transportation expense.

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

Q. Did you review PSP's transportation expense adjustment?

A. Yes.

[9] LaRue, Exh. AMCL-2r (revised 7/13/20), Sch. 1.4; LaRue, Exh. AMCL-3, Table 4.
[10] Burton, Exh. WTB-1T at 9:7-8.

Q. Is Staff contesting this adjustment?

A. Yes.

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

A. Staff contests the restating adjustment for transportation expense for several reasons. As an initial issue, a proper restating adjustment is limited to adjusting operating results for any mistakes in actual recorded results of operations that can distort test period earnings or to adjust results to a regulatory basis.[11] Mr. Burton's adjustment makes a change to the per books amount based on a three-month "study" performed by the Pilots during the test period. The adjustment does not appear to correct a recording mistake, account for an out-of-period expense, or make a regulatory accounting adjustment, and is therefore not a proper restating adjustment.

Additionally, PSP based its adjustment on a study with a three-month sample size. A small-sample study of travel costs does not provide support for adjusting an entire year of costs, as factoring in costs from other months may affect average annual transportation costs. Instead Staff relies on the historical records as a fair representation of the costs.

Furthermore, through responses to data requests, Staff determined that from 2015-2018, transportation expenses averaged $255,475, ranging from $235,423 to $272,163.[12] In contrast, for the test period, transportation expenses were over a

[11] *See*, *e.g.*, WAC 480-07-520(4)(a)(i).
[12] LaRue, Exh. AMCL-13.

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

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

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

C. Entertainment and Travel

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

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

[13] LaRue, Exh. AMCL-4, Table 1.
[14] LaRue, Exh. AMCL-4, Table 2.
[15] Burton, Exh. WTB-03, Restating Entries at row 91.

Q. Did you review PSP's entertainment and travel expense adjustment?

A. Yes.

Q. Is Staff contesting this adjustment?

A. Yes.

Q. Please explain your rationale for contesting Mr. Burton's proposed entertainment and travel expense adjustment.

A. While Staff agrees with Mr. Burton's removal of charitable contributions, sponsorships, and scholarships from this account through PSP's restating adjustment, Staff has determined that an additional adjustment is necessary. Found in PSP's workpaper labeled *Sponsorships and Promotions*, were several lines with the description *Promo-Swag*, totaling $4,324.[16] During this audit, Staff asked about these charges and were told that these items were "uniforms" for certain Pilot employees to wear during specific times, such as when someone visits the pilot station in Port Angeles. However, during the many times that Staff interacted with PSP and their employees, few, if any, "uniforms" were observed. Also, historically, "swag" would not be a ratepayer responsibility. In addition, common accounting practices would expect uniforms to be expensed in the account "Uniforms." Therefore, Staff recommends a total adjustment of $36,319 to account for the removal of these unallowable expenses in addition to the items already removed by Mr. Burton.[17]

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[16] LaRue, Exh. AMCL-8; LaRue, Exh. AMCL-5, Table 2.
[17] LaRue, Exh. AMCL-5, Table 1.

D. Legal Expenses

Q. Please summarize PSP's adjustment to its legal expenses (attorney fees).

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

Q. Did you review these adjustments?

A. Yes.

Q. Is Staff contesting these adjustments?

A. Yes.

Q. Please explain your rationale for contesting the Pilots' proposed adjustments for legal expenses.

A. Staff requested additional information from PSP regarding legal expenses. Workpapers and data request responses illustrate that total legal expenses incurred during, and subsequent to, the test period are $1,069,027.[18] Of that amount, $785,645[19] was specifically in preparation and execution of this rate case.[20] The

[18] LaRue, Exh. AMCL-9.
[19] LaRue, Exh. AMCL-6, Table 2.
[20] LaRue, Exh. AMCL-9.

remainder of $283,382 was for “general legal.” In response to one of Staff’s data requests, PSP stated that legal expenses for the last five years ranged from $51,605 in 2015 to $246,770 in 2018.[21]

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

Staff proposes two changes to the legal expenses for this case. First, since general legal expenses of $283,382 can be identified and are in line with previous years, Staff proposes allowing this amount for the legal expense for the test period, resulting in a restating adjustment (R-20), reducing the per books legal expenses by $111,362.[22]

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

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

A. Since this is the first-ever Commission rate case for PSP, many of these expenses are foundational, with PSP benefiting from these expenses for many years to come. Therefore, Staff proposes amortizing half of the rate-case-specific legal expenses of $785,645, over a three-year period as intermediate legal expenses, and amortizing the

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[21] LaRue, Exh. AMCL-10.

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

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

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

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

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

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

[23] LaRue, Exh. AMCL-6, Table 3.

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

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

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

E. Consulting Fees

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

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

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[24] LaRue, Exh. AMCL-6, Table 4; Staff adjustment PF-17.
[25] LaRue, Exh. AMCL-6, Table 5; Staff adjustment PF-18.

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

A. Yes.

Q. Is Staff contesting this adjustment?

A. Yes.

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

A. Yes.

Q. Why is that?

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

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

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

[26] LaRue, Exh. AMCL-11.

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

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

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

Q. Please explain your rationale for contesting the Pilots' proposed consulting fee adjustment.

A. PSP incurred $139,926 in consulting fee expenses subsequent to the test year. And through Mr. Burton's pro forma adjustment, PSP proposes amortizing these expenses over two years. Staff contests the pro forma adjustment (PF-3) made by Mr. Burton for consulting fees for two reasons. First, Staff proposes to include the two amounts identified previously for Staff adjustment R-21, totaling $95,648, in the amount to be amortized, bringing the total to be amortized to $235,574.[29] Second, given that the costs are atypical, Staff suggests that the consulting fees be amortized in a similar manner to the legal expenses described above. More specifically, Staff proposes

[27] LaRue, Exh. AMCL-7, Table 1; Staff adjustment R-21.
[28] Burton, Exh. WTB-03, Pro Forma Entries at row 17.
[29] LaRue, Exh. AMCL-7, Table 2.

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

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

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

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

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

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[30] LaRue, Exh. AMCL-7, Table 3.
[31] LaRue, Exh. AMCL-7, Table 4; Staff adjustment PF-19.

And because these consulting fees are also both substantial and do not represent an ordinary rate case expense, Staff has chosen a seven-year amortization period for the foundational consulting fees. Therefore, for the foundational consulting fees, Staff proposes an adjustment (PF-20) of $16,827, for seven years.[32]

VI. SUMMARY

Q. Please summarize the results of Staff's review of the rate filing by PSP.

A. Staff began its analysis by examining PSP's test year, in accordance with WAC 480-07-525(4)(d). Based on the modified historical test year approach, Staff recommends a revenue requirement of $35,937,435, a $1,827,495 (5.36 percent) increase over test year revenues. Staff also proposes DNI of $400,855 for 51.98 total pilots resulting in TDNI of $20,836,161.

Q. Please discuss how Staff's results compare with those filed by PSP.

A. Because PSP proposes a three-year rate plan to avoid rate shock, the association's proposal becomes comparable to Staff's proposal in year three of its results.[33] PSP proposes a revenue requirement of $47,718,001, a $13,608,061 (39.9 percent) increase over test year revenues. PSP's proposal exceeds Staff's revenue requirement results by almost $12 million. PSP's proposed TDNI in year three of its rate plan is $32,282,360. When divided by PSP witness Dr. Khawaja's recommended 61.6 pilots, PSP's proposed TDNI results in $524,064 DNI per pilot.

[32] LaRue, Exh. AMCL-7, Table 5; Staff adjustment PF-20.
[33] Burton, Exh. WTB-05.

In addition, PSP's recommended 61.6 pilots is 18.5 percent greater than Staff's recommended 51.98 pilots, resulting in $5 million in additional revenue. Finally, PSP's proposed $524,064 DNI is substantially higher than the Staff proposed DNI of $400,855. This difference alone results in an excess of $6.4 million of additional revenue requirement. However, Staff's proposed DNI of $400,855 is eight percent greater than the $371,586 five-year average or equal to the $400,816 test year amount.[34] A summary of changes in actual and proposed TDNI and DNI are shown in the table below:

	Test Year	-	PSP	Staff
TDNI	$20,076,361		$32,282,360	$20,836,161
DNI	$400,816	*	$524,064	$400,855

* Calculated Historical DNI Sevall Exh. SS-2r2 (revised 7/13/20) (Sch 2.3)

Q. Does this conclude your testimony?

A. Yes.

[34] Sevall, Exh. SS-2r2 (revised 7/13/20), Sch. 2.3 at line 14.