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**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,
Complainant,

Docket TP-190976

v.

PUGET SOUND PILOTS,
Respondent.

**REBUTTAL TESTIMONY OF
JESSICA NORRIS, CPA, SHANNON & ASSOCIATES
ON BEHALF OF PUGET SOUND PILOTS**

JULY 13, 2020

TESTIMONY OF JESSICA NORRIS, Exh. JN-6T

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Exhibit No.	Description	Page Referenced
JN-7	Chart of Ground Transportation Expenses from 2015 through 2019	8

1 **I. IDENTIFICATION OF WITNESS**

2 **Q: Please state your name and business address.**

3 A: My name is Jessica Norris. I am a CPA licensed in Washington. My business address is
4 Shannon & Associates, LLP; 1851 Central Pl S #225, Kent, WA 98030.

5 **Q: By whom are you employed and in what position?**

6 A: As indicated I am employed by Shannon & Associates as a Senior Manager and have
7 previously testified in this proceeding under Exh. JN-1T.

8 **II. PURPOSE IN SUBMITTING REBUTTAL TESTIMONY**

9 **Q: What is your purpose in submitting rebuttal testimony today?**

10 A: To respond to the Commission staff's testimony about accounting recording format by
11 PSP and overarching accrual recommendations, calculation and presentation of PSP's
12 Callback system and finally, UTC staff's disallowance of the full transportation expense
13 and the use of sampling in projecting the annualized cost of revamped, cost-of-service
14 based approach to those charges.

15 **III. RESPONSE TO TESTIMONY OF DANNY KERMODE**

16 **Q: With respect to the Testimony of Danny Kermode for Staff in this proceeding, do**
17 **you have any comments that you want to bring to the Commission's attention?**

18 A: Yes, not surprisingly on an accounting topic. Other PSP witnesses are addressing Mr.
19 Kermode's policy recommendations and conclusions regarding the use of Callbacks and
20 the pay-as-you-go retirement program. I touch upon Callbacks below in the context of
21 Mr. Kermode's overarching accounting recommendation.

22 **Q: And what is that accounting topic?**

23 A: It is Mr. Kermode's testimony and recommendation that the Commission require PSP to
24 apparently imminently adopt the use of accrual accounting reporting consistent with
25 GAAP.

TESTIMONY OF JESSICA NORRIS, Exh. JN-6T - 1

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1 **Q: What is your concern related to that recommendation?**

2 **A:** Actually I can attest, as PSP's auditor, that its financials are performed on the modified
3 accrual (*not modified cash*) basis which is reflected in my exhibit, JN-04, and also
4 described in Note 1 of the Audited Financials.

5 **Q: Are there other aspects of the accrual reporting method used by PSP to which you**
6 **would allude?**

7 **A:** Yes. The PSP federal income tax return is submitted on an accrual basis. Moreover, all
8 revenue generated by PSP is recognized on an accrual basis comparable to GAAP.

9 **Q: Do you agree with Mr. Kermode's testimony at page 15 that only the smallest of**
10 **companies use cash or modified cash basis and that therefore PSP's reporting**
11 **format was inappropriate?**

12 **A:** No, because PSP is not using modified cash basis in the same context in which he
13 apparently refers, and particularly, because here, he seems to be suggesting that PSP does
14 not recognize revenue/income until it is received which is the hallmark of the smaller
15 company reporting to which he analogizes.

16 **Q: Do you have other concerns about his reference to smaller company cash/modified**
17 **cash basis reporting format in making the recommendation about PSP?**

18 **A:** Yes. The fact that Mr. Kermode is characterizing the reporting format on revenue size
19 alone suggests a correlation to PSP, but as noted, PSP does not recognize its revenue on a
20 cash basis, i.e. when it is received, as apparently is the case with the unidentified
21 companies he notes in his testimony.

22 **Q: What other contrasts would you draw with smaller company reporting format or**
23 **circumstances suggested by Mr. Kermode?**

24 **A:** For one thing, there is no suggestion in his testimony that those companies have the
25 pension and additional on-duty or "Callback calculation" issues that implicate unrecorded

1 balance sheet liabilities such as PSP has historically confronted and which, as Note 10 in
2 its audited Financial Statements reflects, are the source of the deviations from full GAAP
3 accrual reporting.

4 **Q: In brief, what is your primary objection to Mr. Kermode’s correlation to PSP or the**
5 **reference to smaller companies as epitomizing modified cash/cash-based**
6 **accounting?**

7 **A:** The fact that Mr. Kermode relies on revenue alone for his comparable factor is inapposite
8 to PSP since PSP reports its revenue on a GAAP accrual basis already. Finally, the fact
9 that pilots are not employees of the PSP entity, as Mr. Kermode points out at page 6 of
10 his testimony, further suggests that analogizing financial reporting by revenue amounts to
11 small companies with employees is not particularly useful or illuminating for his
12 recommendation.

13 **Q: Concerning Mr. Kermode’s disallowance of any continuing recognition in rates of**
14 **the cumulative Callback liability obligation, do you agree with him that if PSP had**
15 **simply been reporting on an accrual basis, the issue with off-balance sheet liability**
16 **“would have decreased as a result of deferring the distribution of the call back**
17 **revenue to the period the pilot actually uses the call back day.” Exh. DPK-1T,**
18 **15:12-14?**

19 **A:** Not really.

20 **Q: Why?**

21 **A:** Because I think there is a basic disconnect with his assumption here. It appears he
22 assumes that when an off-duty pilot takes an assignment, that PSP got funding for that job
23 when paid, analogizing that to overtime in his example when a store clerk works
24 additional time on duty because of “surges” in demand and gets paid a premium wage for
25 that extra time or that if that pilot would have not worked an off duty shift the revenue

1 would have never come in. But here, the off duty pilot is not on the job and uses an off-
2 duty day to come back to work to service a ship that otherwise would have been delayed.
3 The total number of jobs worked does not change whether an off duty pilot works the
4 vessel or an on duty pilot works the vessels since there are only a finite number of on-
5 duty pilots available at any one time and generally the ships are scheduled well in
6 advance of knowing who will move the ship.

7 **Q: But wouldn't accrual accounting "cleanup" the problem of the accounting for**
8 **Callbacks?**

9 **A:** In isolation, maybe, but Mr. Kermode's recommendation seems completely disconnected
10 from the mechanics and reality of the Callback system and its historic treatment in
11 ratemaking at the BPC. Accrual accounting reporting would not in any way be a panacea
12 for the operational disconnect described above because in staff's view you simply back
13 out all funding for Callbacks when worked owing to the consistency with accrual
14 accounting. But that ignores completely the need to compensate pilots for "overtime"
15 when they work an off-duty day to avoid ship delays and the slowdown of maritime trade
16 by moving vessels on demand.

17 **Q: Do you have any further thoughts about the abrupt implementation of accrual**
18 **accounting for Callbacks?**

19 **A:** Yes, to me it's analogous to the more deliberate approach to revisiting retirement funding
20 advanced by the staff in its testimony. Transformation in the accounting for Callbacks is
21 something which should be evaluated and vetted with Staff and the Commission and
22 others thoroughly and is not something in the transition of decades'-long practices at the
23 BPC to the WUTC that should be ordained overnight since it is inextricably bound with
24 staffing, pilot numbers and workload and is a drastic shift from historical operational
25 practices. Refusing to allow recovery of Callback funding in a vacuum by shifting

1 overnight to accrual is clearly broadly destabilizing and portends significant impacts on
2 marine pilotage in Puget Sound operations.

3 **IV. RESPONSE TO TRANSPORTATION EXPENSE DISALLOWANCE**

4 **Q: Did you also have any other comments on Staff’s accounting testimony?**

5 **A:** Yes, on Ann LaRue’s rejection of restating adjustment R-17 relating to transportation
6 expense.

7 **Q: Do you agree with the initial observation by her that R-17 is more properly**
8 **characterized as a “proforma” rather than a restating adjustment?**

9 **A:** Yes I actually do because it gives effect to a change in the test period expenses and it
10 appears Mr. Burton inadvertently erred when he classified it as a restating adjustment
11 when it is a proforma adjustment.

12 **Q: As for the disallowance adjustment in R-17 in total, do you agree?**

13 **A:** No.

14 **Q: Why not?**

15 **A:** Because I respectfully believe her calculation is incomplete and misapprehends the
16 appropriate basis of the transportation expense sample that was performed.

17 **Q: Can you initially explain the objective of the PSP transportation expense study in**
18 **spring 2019?**

19 **A:** Yes. PSP undertook a three-month study after consulting with the UTC Staff who
20 expressed concerns about development of a more cost-based ground transportation
21 charge for pilot assignment that had historically been predicated on taxicab fares and
22 adopted by the BPC in its tariff rates. Those charges also involved up to 18 separate
23 points for which the tariff was applied and were based on allowances rather than actual
24 transportation costs as Mr. Burton explained in his initial testimony.
25

1 **Q: Can you please elaborate on the goals of that study?**

2 **A:** Yes. The purpose was to arrive at a defensible cost per job for ground transportation
3 costs and to use recent cost data in making that calculation.

4 **Q: Did you now understand Ms. LaRue has rejected the conclusion from the study at**
5 **page 11 of her testimony?**

6 **A:** Apparently yes and with it she rejected the entirety of Mr. Burton's restating (proforma)
7 adjustment R-17 of \$156,809 in the process.

8 **Q: And in addition to the three-month duration, what was the other characteristic of**
9 **the study that was performed?**

10 **A:** The sample size which involved analysis of a total 1574 out of an approximate 7100 total
11 assignments for the period.

12 **Q: And as a certified public accountant and auditor, do you have an opinion of the**
13 **sufficiency of that PSP study sample size?**

14 **A:** Yes, I believe 1574 for assignments is definitely a sufficient sample to provide
15 confidence and assurance of the actual average expense calculation per assignment.
16 Based on my experience and familiarity with data sampling as an auditor, having a 95%
17 confidence rating with only a 5% margin of error is, in most situations, more than
18 sufficient to support an opinion.

19 **Q: And what were the sampling results actually here?**

20 **A:** Well, using a sample size of 1574 for assignments out of a total of 7097 as the total
21 revenue assignments for the test period and applying that 95/5 confidence and margin of
22 error standard, you would only need to have a sample size of 364 assignments whereas
23 our sample size again of 1574 is almost 4.5 times above that.

1 **Q: What did your sample size actually calculate?**

2 **A:** Using that 1574 sample size and deriving a \$198.37 expense per job total is within a
3 2.8% margin of error or in other words, you can conclude that the \$198.37 figure is
4 within a 2.87% margin of error by my calculations.

5 **Q: And again, how was that total derived per assignment charge factored into PSP's**
6 **calculation of the overall transportation charge?**

7 **A:** We multiplied that \$198.37 amount times the projected assignments in 2020 that PSP's
8 expert Dr. Sami Khawaja estimated of 6980 assignments to arrive at total transportation
9 costs for the rate year of \$1,384,623 which was higher than the test year calculation on
10 slightly more assignments of \$1,229,599 for a difference of \$156,809, which calculations
11 are set forth at Exh. WTB-04, page 3, line 65.

12 **Q: And what was that overall calculation based on, actual or historical cost analyses?**

13 **A:** Actual, with the results guided by PSP's study, whereas Ms. LaRue, in rejecting that
14 sample, based hers on historical costs derived from Mr. Sevall's analysis which seems
15 contrary to a move to cost-of-service-based rates for ground transportation which was the
16 goal of the study.

17 **Q: Does it appear to you that Ms. LaRue actually even used all historical costs for her**
18 **calculation?**

19 **A:** Unfortunately, no. For some reason based on an interpretation of a data request response,
20 she left off the "TEC" transportation expense charges for 2015-2018 which were
21 necessary for a complete total of the costs that were all contained and disclosed in the
22 audited financials and are publicly accessible on the BPC website, and in addition, for
23 2017 and 2018, were also included in the exhibits in my testimony at JN-04.

1 **Q: What have you done to provide those charge entries and give a more accurate**
2 **picture on overall ground transportation expenses from 2015 through 2019?**

3 **A:** I have reproduced Exh. AMCL-4 on attached Exh. JN-7 to include all the missing
4 transportation expense charges Ms. LaRue somehow omitted.

5 **Q: Briefly, what does that show?**

6 **A:** That her conclusion of a dramatic increase in transportation expenses in 2019 was
7 incorrect once the transportation expense charges for the previous four years are included
8 in her chart. While she is correct that the isolated Seattle transportation expenses did
9 increase by 1500% plus in 2019, that however was a direct result of the transportation
10 trial which shifted that expense to a Seattle-based expense vs. a “TEC” and PA travel
11 reimbursement. As you can see by my restated table, based on Ms. LaRue’s calculations,
12 transportation expenses have been relatively consistent as a percentage of revenue and
13 contrary to Ms. LaRue’s assertion they actually decreased in total from calendar 2018 to
14 2019. Finally, I would note that our proposed travel expenses as a percentage of
15 projected/proposed revenue is fully consistent with historical trends.

16 **Q: Does that conclude your rebuttal testimony at this point?**

17 **A:** Yes it does.
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