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5 **BEFORE THE WASHINGTON**
UTILITIES AND TRANSPORTATION COMMISSION
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WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND PILOTS, Respondent.	Docket TP-190976

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13 **REBUTTAL TESTIMONY OF**
14 **WELDON BURTON, CPA**
15 **ON BEHALF OF PUGET SOUND PILOTS**
16
17 **July 13, 2020**
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TABLE OF CONTENTS

I. IDENTIFICATION OF WITNESS 1

II. PURPOSE IN SUBMITTING REBUTTAL TESTIMONY 1

III. REBUTTAL OF THE TESTIMONY OF JOHN RAMIREZ FOR THE PACIFIC MERCHANT SHIPPING ASSOCIATION 1

IV. REBUTTAL OF PMSA WITNESS MICHAEL MOORE 4

V. UTC STAFF 11

A. Depreciation Adjustments 12

INDEX TO EXHIBITS		
Exhibit No.	Description	Page
WTB-15	PSP Data Request No. 160 propounded to PMSA	7
WTB-16	PSP Staff Data Request No. 15 propounded to UTC Staff	14

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1 **I. IDENTIFICATION OF WITNESS**

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

3 A: My name is Weldon Burton. I a CPA licensed in Washington and Oregon for the last

4 44 years. My business address is: 2 S 56th Place, Suite 201-E, Ridgefield, WA 98642.

5 **Q: Did you previously submit testimony in this proceeding?**

6 A: Yes. On November 19, 2019 under Exh. WTB-1T.

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

8 **Q: What is your purpose in submitting rebuttal testimony in this proceeding?**

9 A: I am responding to the testimony of John Ramirez for PMSA and Captain Michael

10 Moore for PMSA. For Mr. Ramirez I will address his ratemaking methodology and

11 theories for return on investment/equity for pilotage ratemaking and will discuss the

12 select portions of Capt. Moore's testimony regarding accounting adjustments and line

13 item expenses which I believe he misapprehends or simply refuses to understand. I

14 also will comment on Capt. Moore's who is not indicating any CPA experience,

15 critiques of the overall revenue requirement and select expenses that he seeks to

16 highlight. Finally, I will address Staff's Ann LaRue's reduction in depreciation

17 expense in her responsive testimony and my concerns about her recommended

18 adjustments therein.

19 **III. REBUTTAL OF THE TESTIMONY OF JOHN RAMIREZ FOR THE PACIFIC**

20 **MERCHANT SHIPPING ASSOCIATION**

21 **Q: Have you read the Testimony of John Ramirez of Willamette Management**

22 **Associates for the Pacific Merchants Shipping Association?**

23 **A:** Yes I have.

24 **Q: Did you see that he alludes to transportation industry ratemaking methodologies**

25 **used at the Commission?**

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1 **A:** Yes. Specifically at page 17 of his testimony where he offers rather casual
2 "observations and opinions" on those methodologies.
3 **Q: And in your almost four decades of preparing and filing rate cases for**
4 **transportation companies at the UTC, did you become familiar with the various**
5 **ratemaking methodologies applied to regulated transportation companies by the**
6 **Commission?**
7 **A:** Yes, very much so.
8 **Q: Where Mr. Ramirez says "…Revenue and asset investments are analyzed in order**
9 **to derive fair and reasonable capital turnover ratio and operating margins.**
10 **Operating ratio methodologies are typically applied when analyzing a large**
11 **number of regulated companies that all provide the same services (like trucking**
12 **companies and/or trash haulers)," can you tell us first, whether you agree with**
13 **these opinions?**
14 **A:** Not really. For one thing, capital asset turnover ratios are not associated with pure
15 operating ratio methodologies for i.e., motor carriers and auto transportation companies
16 such as is featured by the "Kosh" methodology. To illustrate Mr. Ramirez's misstep
17 here, Mr. Kermode, in his testimony at DPK 1-T, 13 through 18 notes, " [a]ll of PSP's
18 net income is routinely distributed to each individual pilot business entity. The current
19 balance of PSP's equity account, when adjusted for PSP's unrecorded liabilities, is
20 negative, which is reflective of its income distribution policy. The absence of a positive
21 equity balance equates to the absence of any recognition of a cost of equity since a
22 negative equity balance cannot result in any recoverable cost of capital.
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1 **Q: Where, for regulated transportation companies, is capital turnover and risk a**
2 **consideration?**
3 **A:** For the Lurito-Gallagher methodology, capital asset turnover is measured and is a part
4 of the regression analysis derived under the methodology that seeks, amongst other
5 factors, to measure investor risk.
6 **Q: Did you have other observations at page 15 of his testimony about the parallels**
7 **Mr. Ramirez attempts to draw between cost of capital and required rates of**
8 **returns which he claims are "commonly used by PUCs to estimate the required (or**
9 **fair) rate of return on equity for public utility and transportation companies."**
10 **A:** Yes I did, and his implication that the capital asset pricing method or the modified
11 capital asset pricing method for setting transportation rates is appropriate here has been
12 specifically rejected by the Commission for estimating the return on investment in the
13 Lurito-Gallagher methodology he claims to be familiar with later in his testimony**.**
14 **Q: And what was the primary basis for that rejection?**
15 **A:** That the CAPM method was not appropriate for the Washington solid waste industry
16 due to the paucity of rate of return data for non-publicly traded companies.
17 **Q: Do you find any irony here?**
18 **A:** Yes, to the extent that Mr. Ramirez, in developing his own unique rate of return
19 analysis for current pilotage rates, relies on data from "Guideline Publicly Traded
20 Companies" in a CAPM/MCAPM approach which the UTC, in the Lurito case in
21 January, 1988, and the updated Lurito case (Fifth Supplemental Order in TG-900568,
22 page 7 (1991)), expressly rejected as an applicable benchmark for a transportation
23 industry sector with many smaller, privately-held companies. In other words,
24 "guideline" is a misnomer where you are comparing return rates from large, publicly-
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traded companies in establishing rates for considerably smaller regulated entities such as the PSP.

Q: Do you agree with his statement that operating ratios are "typically applied" when analyzing a large group of regulated companies providing the same services?

A: No I don't, to the extent that the justification for the application of use of an operating ratio methodology is more related to the underlying operational characteristics of a regulated transportation company rather than a particular number of companies for which regulated rates are to be established. For instance, the UTC currently establishes rates for commercial ferry companies by operating ratio but there are only a small handful of those companies operating in Washington. Lurito-Gallagher conversely is a modified operating ratio methodology that sets revenues for individual solid waste collection companies based on things like investment in fixed assets and capital structure unique to that individually regulated entity. So, the number of regulated transportation companies by type is not the determinant for methodology, rather, at least for operating ratio-regulated entities, how allowed expenses are applied to gross revenues to derive an appropriate revenue margin for net profit necessary to maintain just, fair, reasonable and sufficient rates for the regulated entity.

IV. REBUTTAL OF PMSA WITNESS MICHAEL MOORE

Q: Have you also reviewed Michael Moore's testimony addressing PSP's expenses in Exhibit MM-01, commencing on page 111?

A: I have.

Q: Do you have any response to his recommendation that the Commission only permit in PSP's operating expenses those expenses he agrees are "essential" to the operation of Puget Sound Pilots as an association?

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1 **A:** No. Mr. Moore characterizes "essential" expenses only those that are a component of
2 "vessel service" that are shared by all pilots. This is not the standard applied by the
3 Commission to expenses. The Commission typically authorizes a company to recover
4 reasonable operating expenses.

5 **Q: Mr. Moore also characterizes medical insurance coverage as "non-essential" and**
6 **asks that the Commission exclude it from PSP's operating expenses; is that**
7 **consistent with Commission decisions for other regulated industries?**

8 **A:** No. In my experience, medical benefits are a customary operating expense for public
9 service companies and are routinely recovered in rates authorized by the Commission.

10 **Q: He also argues that because pilots (or their individual operating corporations or**
11 **LLCs) are independent contractors, that PSP should not be permitted to recover**
12 **the expense. Should it matter in your opinion whether the medical benefits are**
13 **recovered by pilots as members of PSP rather than as employees?**

14 **A:** No. First, PSP incurs this expense directly and there is no basis to any suggestion that
15 the expense is incurred by individual pilots directly. Second, it is common, among
16 privately held public service companies, that the owners who work for their companies
17 receive employee benefits like health insurance and those benefits are not traditionally
18 excluded from reasonable operating expenses by the Commission. Treating pilot
19 medical benefits similarly is reasonable.

20 **Q: PMSA also objects to the inclusion of pension payments to its retired former**
21 **Executive Director on the basis that he is no longer an employee and should not**
22 **now be compensated for work performed while he was employed. Do you have**
23 **any response to that position?**

24 **A:** Deferred compensation for retirement is also a customary expense incurred by most
25 public service companies. While I do not intend to delve into the propriety of the

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1 nature of any pension, I have worked with a number of public service companies with
2 funded defined benefit plans like Mr. Moore argues PSP should have used. In my
3 experience, the liability of paying for those pensions benefits can continue even after
4 the employee has retired if the pension is or becomes underfunded due to a market
5 downturn. Thus, his complaint about paying benefits for a retired employee do not
6 make sense to me.

7 **Q: Mr. Moore also discusses PSP's audited financial statement and appears to**
8 **critique the fact that benefits paid by PSP on behalf of pilots are not included in**
9 **pilot net income. Do you have any response to that critique?**

10 **A:** Yes, I do. Mr. Moore appears to misunderstand the revenue requirement methodology
11 proposed by PSP, which, in its basic formulation, was supported by Staff in the
12 testimony of Danny Kermode. PSP is proposing a formula where the revenue
13 requirement is calculated by adding operating expenses, depreciation, and interest
14 expense to an amount of money Mr. Kermode referred to as the "TDNI." We similarly
15 proposed the TDNI portion of the revenue requirement. That figure is based upon the
16 number of full time equivalent pilots whose work is needed to perform the projected
17 workload multiplied by the "DNI." In my understanding of PSP's proposal, the "DNI"
18 portion represents the labor value of a full-time equivalent pilot. That value should
19 exclude benefits and other expenses that scale up and down based only upon the
20 number of actual licensed pilots. However, the labor value of an FTE pilot varies with
21 workload. In other words, if the result of dividing the number of projected assignments
22 by the number of assignments each FTE pilot would perform is greater than the number
23 of actual licensed pilots, each actual pilot will earn more than the DNI in their net
24 income because they worked more than their full time workload. By isolating benefits
25

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from the DNI, they are not double counted or otherwise increased when actual workload per pilot exceeds the full-time equivalent workload.

Q: Does this apparent misunderstanding by PMSA about the revenue requirement calculation affect any of the other critiques raised by Mr. Moore?

A: Yes, on page 124 of Exhibit MM-01, he claims that PSP's expense projections are "over-inflated." He contends that because PSP is requesting funding for 61 FTE pilots that necessarily this includes additional funding for the attendant benefits and expenses incurred for each individual licensed pilot like medical benefits, and license fees. On that basis, he concludes that PSP's projected rate year expenses are inflated by an additional $467,500, or $42,500 per pilot for each of the 11 FTE pilots included in PSP's TDNI calculation.

Q. Why do you so conclude?

A: Because this is not a correct statement of PSP's pro forma adjustment, and based upon PMSA's response to PSP Data Request No. 160, which I am offering as Exh. WTB-15. There he stated in part:

> The costs of these benefits are not included in PSP's pro-forma adjustments, however the revenues for these pilots are projected in PSP's proposal, thus they have an over-inflation of benefits. PSP would presumably apply these benefits to new additional pilots but, as noted, such increases were not reflected in Mr. Burton's pro forma year 1, 2 or 3. This leaves the reader to conclude that either Mr. Burton anticipated no change in the number of pilots through 3 years, which would be inconsistent with WTB-05, where Mr. Burton mathematically describes PSP's desired tariff increase outcome as based on 61.6 pilots ($501,334.72) - or that the benefit payouts by PSP for increasing the number of pilots from 51 to 61.6 would not account for the additional pilots' medical, disability insurance and license fees benefits.

Q. Can you elaborate as to why this is incorrect?

A: Yes, As I mentioned above, PSP is proposing a DNI figure that only represents the value of labor for a full-time equivalent as a separate component of the revenue

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requirement to avoid precisely what he accuses PSP of doing. We projected an increase of operating expenses to cover the medical benefits, license fees, dues, and training costs at Port Revel for ten additional pilots in year 1 until year 3. These projections considered both the reduction of expense as a result of pilots retiring and the addition of newly licensed pilots. Thus, in year 1, the operating expenses include the expenses required for 51 actual licensed pilots at the end of 2019. These pro forma adjustments reflect a net increase in medical insurance premiums, license fees, license insurance and training in the amount of $140,000. Mr. Moore is overstating the amount of increased expenses included in the revenue requirement by $327,500, and he is incorrect that any projected increase in expense was based upon the number of FTE pilots used to calculated the TDNI.

Q. Does Mr. Moore attempt other criticisms of the expense base with which you take issue?

A: Yes, Mr. Moore makes a similar critique of the buyout paid to retiring members on page 115. He appears to complain that the amount is not included in the pilot net income reported in the PSP financial statements. However, in the revenue requirement calculation, there is no component included to compensate for the cost of buyouts. Thus, PSP clearly is not asking for buyouts to be funded by rates.

Mr. Moore is incorrect in his statement on page 125 that PSP estimates that their Operating Expenses will increase 12.5% in each of the first two years. On row 69, column M of WTB-08 and WTB-09, total operating expenses are $15,752,598 in each year. There is no increase of expenses in year two and a decrease in expenses in year three of $308,426.

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1 **Q: Do Mr. Moore's criticisms of transportation expenses reflect any similar**
2 **misunderstanding of PSP's revenue requirement calculations?**
3 **A:** Yes. I believe Mr. Moore does not understand how PSP's transportation expenses were
4 treated historically and what PSP has proposed in transition from ratesetting by the
5 Board of Pilotage Commissioners to the UTC. At the Board of Pilotage
6 Commissioners, as testified in WTB-1, the expense of transportation to and from
7 assignments was estimated and was included as a direct charge on the tariff based upon
8 the location at which the assignment was performed. That individual tariff charge was
9 then paid directly to the pilot rather than tracked on PSP's books, and the accounting of
10 actual transportation expense was handled by the pilot. In order to permit auditing of
11 the actual transportation expenses incurred by the UTC staff, and in shifting from
12 "allowed" expenses to that based on "actual" expenses, PSP is proposing to transition to
13 a system by which PSP incurs all transportation expenses directly and reimburses pilots
14 only the actual expense rather than the entire tariff transportation charge.
15 **Q: What impact will that transition have on the relevance of PSP's historic reported**
16 **transportation expenses?**
17 **A:** Because pilots incurred most of the their transportation expenses on an individual level,
18 the transportation expenses reported in PSP' financial statements included only a
19 portion of the total cost of transportation incurred in the performance of pilotage in the
20 Puget Sound. When all expenses are reported on PSP's books in the future, we should
21 expect to see an increase in reported transportation expenses.
22 **Q: Do you have any response to Mr. Moore's critique that because PSP projects a**
23 **decrease in future assignment levels there should have been a decrease in the**
24 **proforma projection of transportation expenses?**
25

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1 **A:** Yes. In order to determine the average actual cost of transportation for an assignment,
2 with some guidance from UTC Staff, PSP performed a three-month study during which
3 it incurred all pilot transportation expense directly. Using that data it determined the
4 average cost of transportation. My proforma adjustment to transportation expenses was
5 calculated by multiplying that projected number of assignments, 6,989, by the average
6 transportation expense.

7 **Q: If Mr. Moore were correct and the total projected transportation expenses were**
8 **too high because of a decrease in the number of assignments (as currently**
9 **experienced as a result of the pandemic), would there be any overcollection of**
10 **transportation expenses?**

11 **A:** I would not expect that to occur. Because the proposed tariff item is the average of
12 actual expenses incurred by pilots during the study, total transportation-related revenue
13 collected should vary based upon the number of assignments actually performed in
14 direct proportion of actual expenses incurred.

15 **Q: Mr. Moore also leveled a criticism of PSP's inclusion of the tax imposed by the**
16 **legislature on pilot tariff revenues to help fund the BPC's self-insurance**
17 **premiums. Do you have any response to that criticism?**

18 **A:** Yes. State taxes are an expense of doing business and are traditionally treated as a
19 reasonable operating expense by the Commission. Mr. Moore ultimately appears to be
20 arguing that the ratepayer should not be required to pay for the BPC's operating
21 expenses through rates. However, like the UTC, I understand that the BPC was not
22 traditionally an appropriated agency and that its expenses were generated through
23 license fees and surcharges. These are similar in nature to the UTC's traditional
24 regulatory fees on utilities and transportation companies. Those too have been included
25 as operating expenses when calculating revenue requirements. It appears Mr. Moore's

1 complaint is really that the BPC should be an appropriated agency, and less about
2 whether PSP's request to include taxes as an operating expense is a reasonable request.

3 **Q: Finally, Mr. Moore suggests in Exhibit MM-01, page 125, lines 9-15 that growth in**
4 **operating expenses in PSP's proforma financial statements is inconsistent with**
5 **historic growth rates and therefore should not be permitted. Do you have a**
6 **response to his statements?**

7 **A:** I do. Under the Commission's test year approach, proforma adjustments to operating
8 expenses to be incurred during the rate year must be based on known and measurable
9 changes to the expenses incurred during the test year. All of my proforma adjustments
10 were based upon changes that in I believe are known and measurable. Thus, I believe
11 his complaint is completely unfounded.

12 **V. UTC STAFF**

13 **Q: What is your response to Ms. LaRue's testimony on accounting adjustments?**

14 **A:** Ms. LaRue and I have been through various audits in my experience at the UTC and we
15 often debate adjustments in the process. Here is no different, but I am focused on
16 rebuttal on two primary adjustments by Ms. LaRue dealing with depreciation.

17 **Q: And what is that?**

18 **A:** Of the five specific accounting adjustments she is responsible for, I want to address the
19 Depreciation Adjustment, R-10, discussed beginning at page 8 of Exhibit AMCL-1T.

20 **Q: On restating adjustment R-10, can you discuss what Ms. LaRue proposed and**
21 **what concerns you have with that recommendation?**

22 **A:** Yes, whereas I had proposed an overall restating adjustment for the depreciation
23 expense largely related to PSP's two pilot vessels, the *Puget Sound* and *Juan de Fuca*,
24 of $442,879 which increased the depreciation expense for the rates to almost $600,000
25

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1 ($599,080), she proposed, as shown at Exh. AMCL-2, 2:83, to remove $252,889 of
2 total depreciation expense.
3 **Q: And based on her testimony and subsequent data request responses, do you agree**
4 **with that adjustment?**
5 **A:** No I do not.
6 **Q: Why?**
7 **A:** To explain why I am in substantial disagreement, we need to focus on her treatment of
8 the two pilot vessels individually and, as she notes in her testimony, these two vessels
9 account for the lion's share of the depreciation expense which in the test year is
10 $342,650.
11 **A. <u>Depreciation Adjustments</u>**
12 **Q: Let's first of all focus on the *Puget Sound.* Is it true that you indicated in your**
13 **workpapers and testimony that you were calculating the depreciation for that**
14 **vessel to cease in 2019?**
15 **A:** Yes I did.
16 **Q: Well then why do you disagree with Ms. LaRue's adjustment?**
17 **A:** Because she entirely eliminated depreciation for the *Puget Sound* in the test year which
18 runs from July 1, 2018 through June 30, 2019. Eliminating any depreciation for the
19 *Puget Sound* in the test year in my view is inaccurate.
20 **Q: Why?**
21 **A:** Well, aside from apparently removing any depreciation expense in the test year, she
22 also fails to give recognition to the remaining six months' worth of depreciation
23 expense in 2019 and thereby erodes the "matching principal" or correlation of
24 accounting for expenses and revenues occurring in the test period. For the ellipsis of
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1 the last six months' depreciation, she does not provide the total amount of the
2 depreciation expense consistent with the below-cited 20 year depreciation policy.

3 **Q: By the way, what happens when line item expenses for the test period are not**
4 **properly matched?**

5 A: It clearly has the effect of rather arbitrarily picking and choosing expenses that then
6 won't align with the test period.

7 **Q: But doesn't that happen in general with restating adjustments to individual**
8 **expense items?**

9 A: Yes, but here the only justification offered is that the vessel in question will be "fully
10 depreciated" by the rate year and thus there would be no depreciation effect given at all
11 to the test period depreciation for the vessel.

12 **Q: How is that consistent or fair with the Staff's "remaining life" premise for the**
13 **adjusted depreciation of the *Juan de Fuca*?**

14 A: It really is not. In the *Puget Sound* instance, Ms. LaRue eliminates any depreciation
15 expense in the test period, asserting that it has fully depreciated value for the rate year.
16 But next, at AMCL-1T, 9:19-21 through AMCL-1T 10:2, she discusses the relative
17 ages of the vessels and states that "during this audit" staff discussed market value and
18 that it was "… my understanding that PSP is planning to replace both boats in four
19 years."

20 **Q: Based on that rather off-the-cuff analysis of "remaining life of the *Juan de Fuca,"***
21 **what does she then do with her adjustment for depreciation for that vessel?**

22 A: While I had estimated approximately two more years of depreciable life for the *Juan de*
23 *Fuca* consistent with the MARAD's Policy 46 CFR § 382.3 (b)(2)(i) provision cited at
24 page 8 of my direct testimony, she doubled the amortization period to four years on the
25 basis of her reference to "the remaining life of the vessel."

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1 **Q: What is your thought of the remaining life adjustment?**

2 **A:** Well first, despite practicing regulated utility accounting for these many years, I had not
3 heard of that premise for adjustment to depreciable lives of assets, so I propounded data
4 requests to Staff on that issue.

5 **Q: And what was the response?**

6 **A:** I have attached PSP Staff Data Request No. 15, Exh. WTB-16, as that response.

7 **Q: And does that answer your inquiry?**

8 **A:** Not really. While I cannot attest to being familiar with the FCC decision Staff cites
9 which curiously dealt with telecom equipment depreciation in the 1980's as the advent
10 of new technology and telecom deregulation converged, I also am not aware that the
11 Commission has recognized that specific policy in any Title 81 rate case final order.
12 But even if it had, doubling the remaining depreciation expense amortization for the
13 *Juan de Fuca* is inconsistent with Ms. LaRue's prior implicit treatment of the 20-year
14 life for the *Puget Sound,* contrasted now by a summary extension of the life of the *Juan*
15 *de Fuca.*

16 **Q: Can you elaborate briefly on what you mean here?**

17 **A:** Yes. While Ms. LaRue testifies that "both boats are about 20 years old," she fully
18 depreciates the one by projecting that completion (prematurely) over the rate year but
19 inconsistent with MARAD's Policy 46 CFR § 382.3 (b)(2)(i) on depreciation, then
20 unilaterally doubles the period to depreciate the other, based not on MARAD's Policy
21 46 CFR § 382.3 (b)(2)(i), but merely on her "understanding" that PSP is planning to
22 "replace both boats in four years" and alludes to the rather esoteric remaining life
23 principle as additional support for the proposed adjustment.

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1 **Q: First, do you agree with the premise (apparently hearsay-based), that PSP plans to**
2 **"replace the vessel in four years?"**
3 **A:** No. To the extent that in my frequent conversations with PSP directors, that is a highly
4 fluid issue, and will depend on revenues, the economy, the continued seaworthiness and
5 repair condition of the vessels so that the replacement interval for those vessels is
6 entirely speculative at this point, and in my mind, would not in any way justify
7 doubling the amortization period for the *Juan de Fuca*.
8 **Q: So, rather than the revised depreciated asset cost of $322,034 as adjusted by Ms.**
9 **LaRue, what would you indicate is the appropriate asset cost adjustment based on**
10 **the depreciation and vessel lives of the two pilot vessels?**
11 **A:** Ms. LaRue also assumes that the *Juan de Fuca* pilot boat has been depreciated for
12 eighteen full years. I disagree. The vessel was acquired on December 11, 2001.
13 Depreciation expense begins the full month following an acquisition. In this instant
14 case, depreciation begins January 2002. This case has a test year ending June 30, 2019.
15 The vessel has seventeen years and six months of depreciation applied, which leaves an
16 undepreciated balance of $402,543.
17 **Q. What about the *Puget Sound*?**
18 **A:** Ms. LaRue assumes that the *Puget Sound* pilot vessel has been depreciated for twenty
19 full years. I similarly disagree. The vessel was acquired on December 09, 1999.
20 Depreciation expense begins the full month following an acquisition. In this instant
21 case, depreciation begins January 2000. This case has a test year ending June 30, 2019.
22 The vessel has nineteen years and six months of depreciation applied, which leaves an
23 undepreciated balance of $90,816.
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The table below shows these calculations for each vessel:

Juan de Fuca - Cost	3,220,340
Depreciable Life	20 Years
Acquisition Date	12/11/01
Annual Depreciation	161,017[1]
Depreciation expense	
January 2002 to June 2019 Seventeen years six months	2,817,798
Undepreciated Balance on June 30, 2019	402,543
Puget Sound - Cost	3,632,659
Depreciable Life	20 Years
Acquisition Date	12/9/99
Annual Depreciation	181,633[2]
Depreciation expense	
January 2000 to June 2019 Nineteen years six months	3,541,843
Undepreciated Balance on June 30, 2019	90,816

In the end depreciation accounting is about consistency. In my view, respectfully, Ms. LaRue has not been consistent in treatment of the pilot vessel depreciation accounting. Thus in my opinion, the depreciation expense for both vessels of $342,650 as originally calculated in the filing should be reinstated into the results of operations.

Q: Does this now conclude your rebuttal testimony?

A: Yes, it does.

[1] Depreciation of $161,017 for *Juan de Fuca.*
[2] Depreciation of $181,633 for *Puget Sound* should be combined for a total of $342,650.

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