

Exh. MM-48
Docket TP-190976
Witness: Capt. Michael Moore

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND PILOTS,

Respondent.

DOCKET TP-190976

**EXHIBIT TO
TESTIMONY OF
Captain Michael Moore
ON BEHALF OF
PACIFIC MERCHANT SHIPPING ASSOCIATION**

*UTC Staff Responses to PMSA Data Requests Cited in Cross-Answering
Testimony*

July 13, 2020

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF
RESPONSE TO DATA REQUEST

DATE PREPARED:	June 19, 2020	WITNESS:	Danny Kermode
DOCKET:	TP-190976	RESPONDER:	Danny Kermode
REQUESTER:	PMSA	TELEPHONE:	(360) 664-1253

DATA REQUEST NO. 2:

Exh. DPK-1T p. 6 describes Staff's approach to "deriving the revenue requirement ... began by constructing a forward-looking cost study referred to as a pro forma income statement" and further included "compensation for each of the pilots providing service in the form of distributed net income." Please confirm whether or not UTC Staff construction of the pro forma determination of compensation was performed independently of a preliminary consideration of whether or not PSP had proven that the current rates are unfair, unjust, unreasonable, or insufficient to provide adequate revenues for the provision of pilotage services. If such a preliminary consideration was conducted, please provide copies of any and all documents concluding PSP had proven that the current rates are unfair, unjust, unreasonable, or insufficient with respect to pilotage costs.

RESPONSE:

The purpose of the pro forma income statement is to conduct a financial review of PSP's revenues and expenses adjusted for all known and measurable changes to determine if the current rates produce results that are fair, just, reasonable, and sufficient. An integral part of that examination must include total distributable net income (TDNI) since the determination of fair, just, reasonable, and sufficient results of operations must include pilot compensation. There was no preliminary evaluation of results before the inclusion of pilotage compensation.

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DATA REQUEST NO. 9:

Exh. DPK-1T pp. 8-9 states “TDNI = DNI * Pilots.” Is it also possible to derive TDNI per the formula “TDNI = (TA * ARPA) – Exp – Dep – Int” where TA = Total Ship Movement Assignments and ARPA = Average Revenue per Assignment, and the other expense categories are the same as described at Exh. DPK-1T p. 7? If not, why not?

RESPONSE:

Yes. The first part of the equation (TA*ARPA) simply equals revenue whereas the remainder of the provided formula reduces revenues by operating and financing expenses resulting in net income (TDNI).

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DATE PREPARED:	June 23, 2020	WITNESS:	Scott Sevall
DOCKET:	TP-190976	RESPONDER:	Scott Sevall
REQUESTER:	PMSA	TELEPHONE:	(360) 664-1230

DATA REQUEST NO. 17:

With respect to the new rate design, as described the “proposed tariff has two main rates; a gross tonnage rate and a service time rate. ... The gross tonnage rate operates much like a base rate and the service time rate operates much like the usage rate.” (Exh. SS-1T, p. 19) And, the “base rate and specific line item rates were designed to cover the costs associated with the income statement. The service time charge is calculated specifically to cover the TDNI.” (Exh. SS-1T pp. 20-21) Would it be a correct restatement of UTC Staff’s proposal that the gross tonnage revenues are intended to cover PSP operating expenses and administrative overhead and that the “usage rate” revenues charged by the hour of pilotage services delivered are a service time rate intended to compensate each pilot’s DNI earned for each assignment completed?

RESPONSE:

The tariff rates are intended to cover the complete cost of marine pilotage operations. I believe a correct restatement of Staff’s proposal is “the gross tonnage revenues are estimated to cover PSP operating expenses and administrative overhead and that the ‘usage rate’ revenues, charged per hour of pilotage services delivered, are a service time rate estimated to compensate for pilot time.”

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DATA REQUEST NO. 4:

Please explain what is meant by the statement “Staff recognizes the scope of the Commission’s economic regulation stops and goes no further than the individual pilot entities.” (Exh. DPK-1T, p. 6) Please list and describe which statutory or regulatory limitations in the applicable chapters of the RCW or WAC apply to limit the scope of UTC inquiry and authority over the economic conditions of pilotage with respect to individual licensees.

RESPONSE:

Objection: This request calls for a legal conclusion. In addition, to the extent that the request seeks every RCW or WAC that could apply to limit the scope of the Commission’s inquiry, the request is unduly burdensome. The information sought is readily available to PMSA through the Washington State Legislature, and is therefore obtainable from a more convenient, less burdensome source.

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DATA REQUEST NO. 5:

Exh. DPK-1T p. 7 describes the WUTC Staff proposed ratemaking formula as “similar to formulas used in other industries that the Commission economically regulates.” Please list and describe the other industries which WUTC economically regulates and which use similar formulas.

RESPONSE:

Electric, Natural Gas, and Water.

See *POWER v. Wash. Water Power Co.*, 102 Wn.2d 260 (1984).

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DATA REQUEST NO. 6:

For each industry identified in DR No. 5, please identify the ratemaking formula and provide a general description of the regulatory theory or model which underpins the ratemaking formula.

RESPONSE:

Electric –

Revenue Requirement = expenses + depreciation + income taxes + (return*rate base)

Natural Gas –

Revenue Requirement = expenses + depreciation + income taxes + (return*rate base)

Water Distribution –

Revenue Requirement = expenses + depreciation + income taxes + (return*rate base)

Revenue requirement equals recoverable expense including depreciation and income taxes plus a fair return on investment.

See *POWER v. Wash. Water Power Co.*, 102 Wn.2d 260 (1984).

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DATA REQUEST NO. 14:

Exh. DPK-1T p. 16 states that a “ship move takes between 7 to 8 hours on average,” but based on the PSP Petition evidence (Exh. WTB-11), PMSA calculated an average of 5.03 hours per ship move (Exh. MM-14). Please either provide all documentation that WUTC Staff relied upon which demonstrates an average ship move of between 7 and 8 hours, or admit that upon PSP Petition evidence, as revised, the average ship assignment is approximately 5 hours.

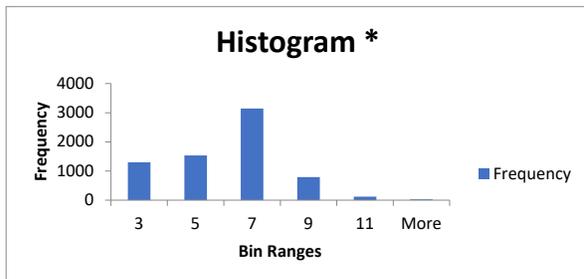
RESPONSE:

The cited testimony was based on analysis of the hourly data in Burton, Exh. WTB-11 using histograms. See PMSA DR 1 – 16 DR 14 Attachment A – Histogram of Hours.

Response to PSMA DR No 14
 Prepared by Danny Kermode

Histogram Analysis of Time for Moves

<i>Bin Ranges</i>	<i>Frequency</i>
3	1300
5	1532
7	3144
9	791
11	119
More	24



Source: WTB-11 Revenue Calculation Year 1
 Data Set: Job Hours

Statistical Description of Data Set: Job Hours*			
Kurtosis	1.066	Mean	5.570
Skewness	-0.002	Standard Error	0.025
Range	21.000	Median	6.000
Minimum	2.000	Mode	6.000
Maximum	23.000	Standard Deviation	2.051
Sum	38,492	Sample Variance	4.208
Count	6,910		

* Reflects removal of 124 zero (-0-) hour moves

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DATA REQUEST NO. 11:

Exh. DPK-1T p. 10 states that “[s]ince the TDNI is ultimately distributed to pilots as compensation, selecting the appropriate pilot count is critical to proper rate-setting” and that this is inconsistent with BPC methodology utilized “prior to 2009.” Please confirm whether the UTC Staff formula in this regard is consistent or inconsistent with previous rate actions taken by BPC from 2009-2019. If UTC Staff believes it is consistent, please provide any documentary evidence of the correlation of BPC actions with respect to adjustments to the tariff governing the ultimate distribution of “compensation” to pilots.

RESPONSE:

At Kermode, Exh. DPK-1T 10, Staff stated:

“Q. Is this an example of Staff adopting a different approach than the Board?”

A. Yes. Prior to 2009, the BPC consistently used the *approved pilots* number as a factor in setting the TDNI.”

Therefore, while using a specific number of pilots to set rates is consistent with BPC methodology prior to 2009, the determination of the number of pilots has changed to reflect the legislative reallocation of marine pilotage rate-setting authority to the Commission.

Since from 2009 to 2019 the decision process used by the BPC has been a “black box,” Staff cannot testify as to whether rate actions taken by the BPC were or were not consistent with Staff’s proposed approach.

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DATA REQUEST NO. 1:

Exh. DPK-1T p. 5 states that “[t]o the extent possible, we continue to use the same rate-setting approaches used by the Board of Pilotage Commissioners,” but also confirms that the BPC approaches to rate setting were often “black-box decisions” and “embraced various changing methodology and techniques over time.” Exh. DPK-1T pp. 5-6 then further states “however, through the years, a standard approach of setting rates, using only an overall percentage increase or single line item changes only, was adopted by Board. Where possible, and when it was consistent with recognized ratemaking practices, Staff has adopted the Board’s approach to setting rates.”

Please identify which UTC Staff recommendations are consistent with the “overall percentage increase” methodology and which UTC Staff recommendations are consistent with the “single line item changes only” methodology.

RESPONSE:

PMSA misreads Staff’s testimony.

The first sentence of the cited paragraph, the topic sentence, states:

“Staff has attempted to follow, to the extent possible, the BPC’s methods for setting rates for pilotage as described in past BPC annual reports and minutes and the 2001 Memorandum of Understanding used to set rates from 2001 to 2005.”
(Kermode, Exh. DPK-1T 5:17-19)

The next sentence, a supporting sentence, and the one only partially quoted in the DR, simply describes some of the challenges Staff faced in developing its ratemaking approach.

There are no instances where Staff makes a recommendation that is consistent with the “overall percentage increase” methodology or consistent with the “single line item changes only” methodology.