TO: WASHINGTON STATE BOARD OF PILOTAGE COMMISSIONERS

The Pacific Merchant Shipping Association (formerly PSSOA) and Polar Tankers have worked with the Puget Sound Pilots (PSP) under a Memorandum of Understanding (MOU) for the past ten years to provide joint tariff proposals to the Commission. We have all enjoyed the benefits of the MOU and the self-correcting formula. Unfortunately, PSP terminated the MOU and instead opted to seek **extraordinary** and we believe **unreasonable increases** in the tariff, TNI and personal allowances that will result in huge increases in income as well as compensatory day and retirement obligation.[1]

We have spent considerable time reviewing the issues, evaluating pilot assignments, workloads, compensation, and benefits as well as conducting comparisons with relevant ports both directly and via our membership. Those we represent were fully apprised of our findings and of the magnitude of the PSP proposals. Ultimately we were faced with two choices; agree to the increases sought by PSP or make our case to the Board of Pilotage Commissioners for the setting of fair and reasonable compensation and tariff levels. We have confidence that the Board will focus on ensuring safe, efficient, proper and competent pilot service with all appropriate consideration for the economic well being and competitiveness of our industry.

Our recommendation this year is based in part on the self-adjusting formula found in the now expired MOU. A brief discussion of the MOU's successes and history are highlighted below:

- PSP co-created the formula approach in large part to obtain protection against downturns in activity.
- PSP signed an agreement formalizing this approach not once but twice – their commitment to this approach highlights the value PSP placed on protecting net income against downturns.
- Tariff adjustments based on the formula and MOU have appropriately provided for operating expenses, capital expenditures as well as fair and reasonable increases in compensation.

[1] PSP Letter Dated December 1, 2005 terminated the MOU at the expiration of the term

- PSP helped set and agreed to both the Target Net Income amount AND the rate of increase. There were no surprises in TNI amounts from year to year for either party as increases were based on CPI plus 1% over the past five years.
- PMSA/POLAR received no complaints from PSP until last year when the San Francisco pilot compensation spike was announced (SF has no downside protection).
- MOU/Formula based **Individual Pilot Net Income outperformed TNI** by 9.33% or $175,326 over the life of the formula and **exceeded TNI nine out of ten years**.
- Individual Pilot Net Income reported by PSP for each pilot was a total of $85,330 **over** Target Net Income over the last three years.
- Ironically, it is these last three years where PSP believes the formula based approach failed them. We disagree.

Last year industry made a **good faith proposal** to adjust the tariff 6.79% **above** the formula based recommendation. The offer was approved and implemented. Our offer will produce an estimated **$1,400,000 of additional income** or $27,500 for each pilot during the July 1, 2005 to June 30, 2006 tariff year. This good faith action appears to have had no impact on negotiations or compromise as PSP continues to seek extraordinary increases.

In furtherance of our good faith effort last year, **we request the Board adopt the following amendments to the general tariff and associated charges**:

- Increase all categories of the general tariff by 3.46% except the "Delay of Sailing" fee and transportation.
- Increase the "Delay of Sailing" fee by first doubling the current fee and then increasing the hourly rate by 15% for each hour of delay after the first hour. Thus, the first hour would be charged at $236, the second at $271, etc. All other hourly charges would increase by the 3.46% described above.
- Increase Target Net Income by 5% to make it $225,398. (3% for inflation; 1% sweetener; 1% to capture the "Delay of Sailing" increase so the formula does not correct downward next year.)
- This proposal is designed to fund 52 pilots plus a president plus 1.2 pilots worth of comp time. We chose the number 53 based on information presented by the TEC in past Board meetings as the most likely number of PSP pilots working during the tariff year. Now that the MOU has expired and the Board is setting the number of pilots, we feel that using the actual number of pilots in the self-correcting formula is the most appropriate methodology. (Please note that PSP used the manning formula in the now expired MOU to generate the 58 pilots they used when they ran their version of the self-correcting formula. This would only

be appropriate if the MOU were continued and the self-correcting feature allowed to work the following year.)

- Individual Business Expense would be set at $28,621. Normally the IBE would be set by increasing the previous year's IBE by CPI. This year, in addition to CPI, we are recommending that the IBE also be increased by $3,960 in order to offset increased medical insurance costs.

Please find attached further information to help you make your decision regarding tariffs on May 11. If you have any questions regarding this proposal or the information contained within, please don't hesitate to contact PMSA or Polar Tankers representatives.

Respectfully yours,

M R Moore

Michael R. Moore
On behalf of PMSA/Polar Tankers

Table of Contents

PUGET SOUND "SELF ADJUSTING TARIFF FORMULA"
2006 Tariff Year (July 1, 2006 to June 30, 2007)

			PMSA/POLAR	**PSP**
A	Target Net Income for the preceding year		$214,665	Same
MINUS:				
B	Total Pilotage Revenue		$20,673,996	Same
MINUS:				
C	Operating Expenses		$6,615,867	Same
	Seattle (includes GH retirement)	$2,211,757		
	Port Angels	$592,402		
	Pilot Boats	$2,495,872		
	PSP Retirement	$1,315,836		
D	Other Expenses		**$2,354,750**	**$2,056,109**
	Travel Reimbursement	$837,837		
	Individual Business Expense Allowance			
	Industry: 2005 level + CPI $28,621 * 53 pilots = $1,516,913			
	PSP: 2005 level $23,943 X 50.9 pilots = $1,218,272 * *Additional IBE allowance is listed under Variable H. Total IBE allowance in PSP's formula = $2,061,418 or $38,479.75 IBE/pilot X 53.57 pilots			
PLUS:				
E	Excluded Expenses		$132,579	Same
	American Pilots Association dues	$79,300		
	Master, Mates & Pilots dues	$15,675		
	Lobbyist	$37,604		
MINUS:				
F	Recapture Amounts		$0	Same
G	Projected change in State fees and/or taxes		$0	Same
H	Projected Major Capital or Extraordinary Expenses		**$138,529**	**$981,675**
	PSP & Industry: Projected Capital Expense	$93,529 (net result)		
	PSP only: Extraordinary – IBE	**$843,146**		
	PSP & Industry: Extraordinary – Fuel costs	$45,000		
DIVIDED BY:				
I	Number of active Puget Sound Pilot members		**53**	**58**
	Industry: Actual # of pilots---50 current + 6 new – 3 retirees			
	PSP: Used "manning formula" in expired MOU. The additional 5			
	"ghost" pilots will add 8.15% to PSP's tariff change.			
PLUS				
J	Number of projected comp days as a "pilot equivalent" (Per PSP)		1.2	1.0
DIVIDED BY:				
A	Target Net Income for Previous Year		$214,665	Same
SUBTOTAL				**11.94%**
PLUS:				
K	Consumer Price Index for the preceding calendar year		3.00%	Same
L	Special Target Net Income Adjustment		1.00%	Same
M	TARIFF ADJUSTMENT PRIOR TO "SAILING DELAY" FEE INCREASE:		**3.46%**	**15.94%**

(See cover letter for "Sailing Delay" fee increase details.)

PUGET SOUND "SELF ADJUSTING TARIFF FORMULA"

The concept that Puget Sound pilotage tariffs could be set using a "self adjusting tariff formula" was first introduced during negotiations for the 1996 tariff hearing by Jimm Sweet, business manager for the Puget Sound Pilots at that time.

What does the term "self-adjusting tariff formula" mean?
It is a mechanism whereby recommendations for pilotage rates are set automatically, on an annual basis, using an agreed-to formula.

How does the formula fit into the tariff setting process?
The joint industry/pilot tariff recommendation that is submitted to the Washington State Board of Pilotage Commissioners each year has been governed by a Memorandum of Understanding between Polar Tankers, Inc. (formerly Arco), Puget Sound Pilots, and PMSA (formerly PSSOA) that was originally agreed to in 1996 and later re-negotiated in 2001.

The Board in turn is authorized by RCW 88.16.035 (4) to annually fix pilotage tariffs for the Puget Sound pilotage district. Please note that the Board is not bound by law or regulation to accept the joint tariff recommendations put forward by the shipping industry and the Puget Sound Pilots, but has seen fit to do so since the first Agreement was reached in 1996.

A brief description of how the self-adjusting tariff formula works.
The formula is a "backward looking" mechanism that compares the Target Net Income (TNI) for the previous year against the actual net income for the previous year, i.e. (TNI – Actual income)/TNI . The resulting difference expressed as a percentage, whether positive or negative, is then added to the change in the Consumer Price Index (CPI) for the previous year. This sum becomes the recommended tariff change for the current year. In its simplest and original form, this can be expressed by the formula…

(TNI – Actual net income)/TNI + CPI = Tariff adjustment (%)

In plain English, this means that if the pilots' income the previous year failed to meet the target (the TNI), then the tariff is adjusted upward. Conversely, if the pilots' income greatly exceeded the target, then the tariff is adjusted downward in those cases where the downward correction is greater than CPI. The CPI adjustment is included to compensate the pilots for inflation.

The Target Net Income (TNI) was initially set in 1996 by negotiations between industry and the pilots. In the 1996 to 2000 MOU, the TNI was then adjusted annually by adding a CPI correction to it to compensate for inflation. In the subsequent 2001 to 2005 MOU, TNI was calculated each year by adding a CPI adjustment plus a 1.0% "sweetener" to the previous year's TNI. (Example: $TNI_{2002} = TNI_{2001} + CPI + 1\%$)

Please note that the actual formula used to generate the Puget Sound tariff recommendations is considerably more complicated then that expressed above due to the necessity of calculating "actual net income" for the pilots. In calculating "actual net income", a number of variables are considered including gross revenue, allowed expenses, excluded expenses, number of pilots, projected major capital expenditures for the upcoming year, etc. For almost all variables, the numbers used in the formula are derived from the audited financial statements of the Puget Sound Pilots.

The self correcting tariff formula as seen in the 2001 to 2006 MOU:

$$\frac{A - \left(\dfrac{B - (C + D) + E - (F + G + H)}{(I + J)} \right)}{A} + K + L = \text{Tariff adjustment}$$

What percentage has the rate changed each year since the self-adjusting tariff was introduced?

A summary of the rate changes since 1996 is as follows:

Year	Tariff Adjustment	
1996	+7.86%	
1997	+1.94%	
1998	-3.03%	
1999	+5.56%	
2000	-2.85%	
2001	+1.32%	
2002	+13.19%	
2003	-2.20%	
2004	-16.42%	
2005	+5.00%	(Also included a one time "dampening factor of +6.79%)

END

PUGET SOUND PILOT TARIFF---PERFORMANCE DATA

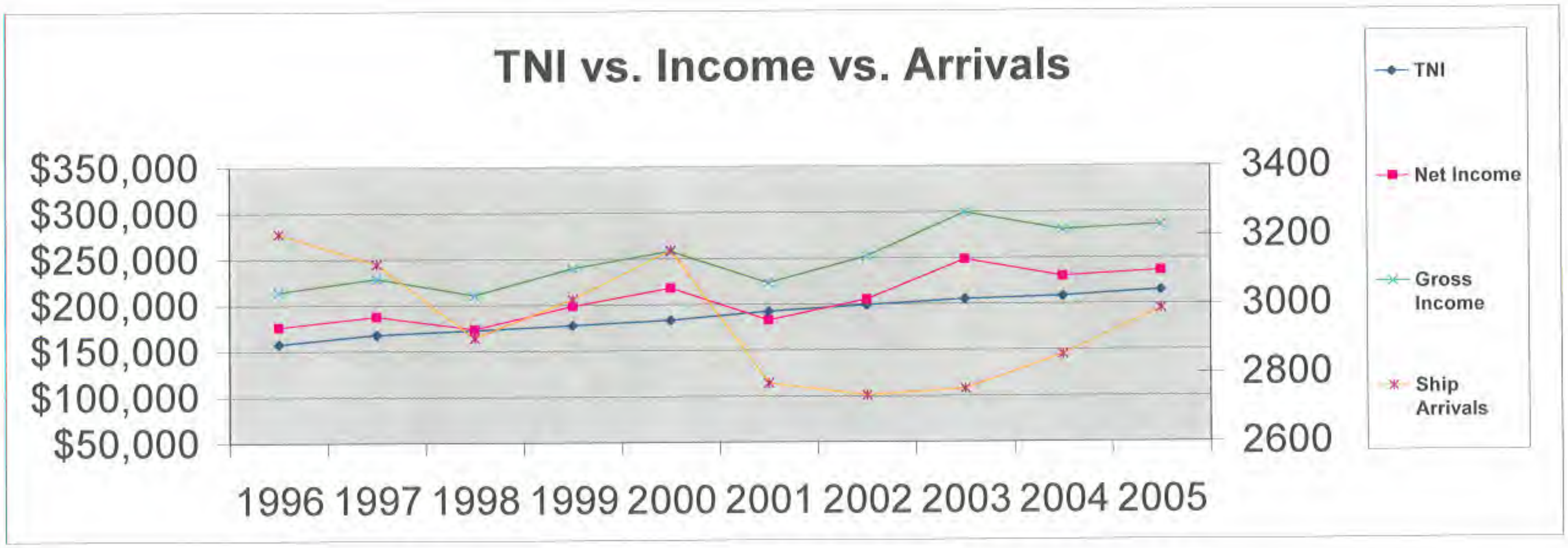
(Net income does NOT Include Individual Exp Allowance; Travel Allowance or B.C. Surcharge)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Vessel Arrivals ≥300 GT	3207	3118	2904	3016	3157	2771	2736	2754	2853	2987
# pilotage assignments	8359	8118	7145	7746	8254	7288	7241	7338	7604	8260
Tariff change	7.86%	1.94%	-3.03%	5.56%	-2.85%	1.32%	13.19%	-2.20%	-16.42%	5.00%
CPI change (previous year)	3.00%	3.40%	2.90%	2.90%	3.00%	4.10%	2.50%	2.10%	0.50%	2.10%
Ind Business Exp Allowance	$14,870	$15,376	$15,822	$16,281	$16,769	$22,297	$22,854	$23,334	$23,451	$23,943
TNI (= prev yr + CPI + 1%)	$157,536	$167,713	$172,577	$177,581	$182,909	$192,237	$198,966	$205,134	$208,211	$214,665
Full time pilot net income	**$175,846**	**$187,357**	**$173,270**	**$198,278**	**$217,588**	**$182,333**	**$204,769**	**$248,086**	**$229,449**	**$235,879**
Income % change fm prev yr		7%	-8%	14%	10%	-16%	12%	21%	-8%	3%
Travel allowance (avg)	$14,382	$14,408	$12,704	$15,547	$15,562	$13,073	$14,740	$16,771	$17,484	$16,460
B.C. Surcharge	$9,343	$11,788	$8,972	$9,482	$8,127	$5,693	$9,782	$11,556	$10,448	$9,599
Full time pilot gross income[1]	**$214,441**	**$228,929**	**$210,768**	**$239,588**	**$258,046**	**$223,396**	**$252,145**	**$299,747**	**$280,832**	**$285,881**
Estimated pension benefit[2]	$2,027	$23,597	$24,282	$24,986	$25,735	$27,048	$27,995	$28,862	$29,295	$30,203
Estimated comp day benefit[3]										$25,464
Gross Plus Pension/Comp Day Benefits for 2005										**$341,548**

[1] Includes net income; Individual Expense Allowance; Travel Allowance; B.C. Surcharge; estimated pension benefit; estimated comp day benefit.

[2] Assumptions: PSP Pension Plan; Age of hire = 42; Retirement age = 65; married with spouse 3 yrs younger than pilot; 2.68% increase in TNI; 5% interest rate; mortality table 94GARU2002.

[3] See "Comp Day Liability" tab.

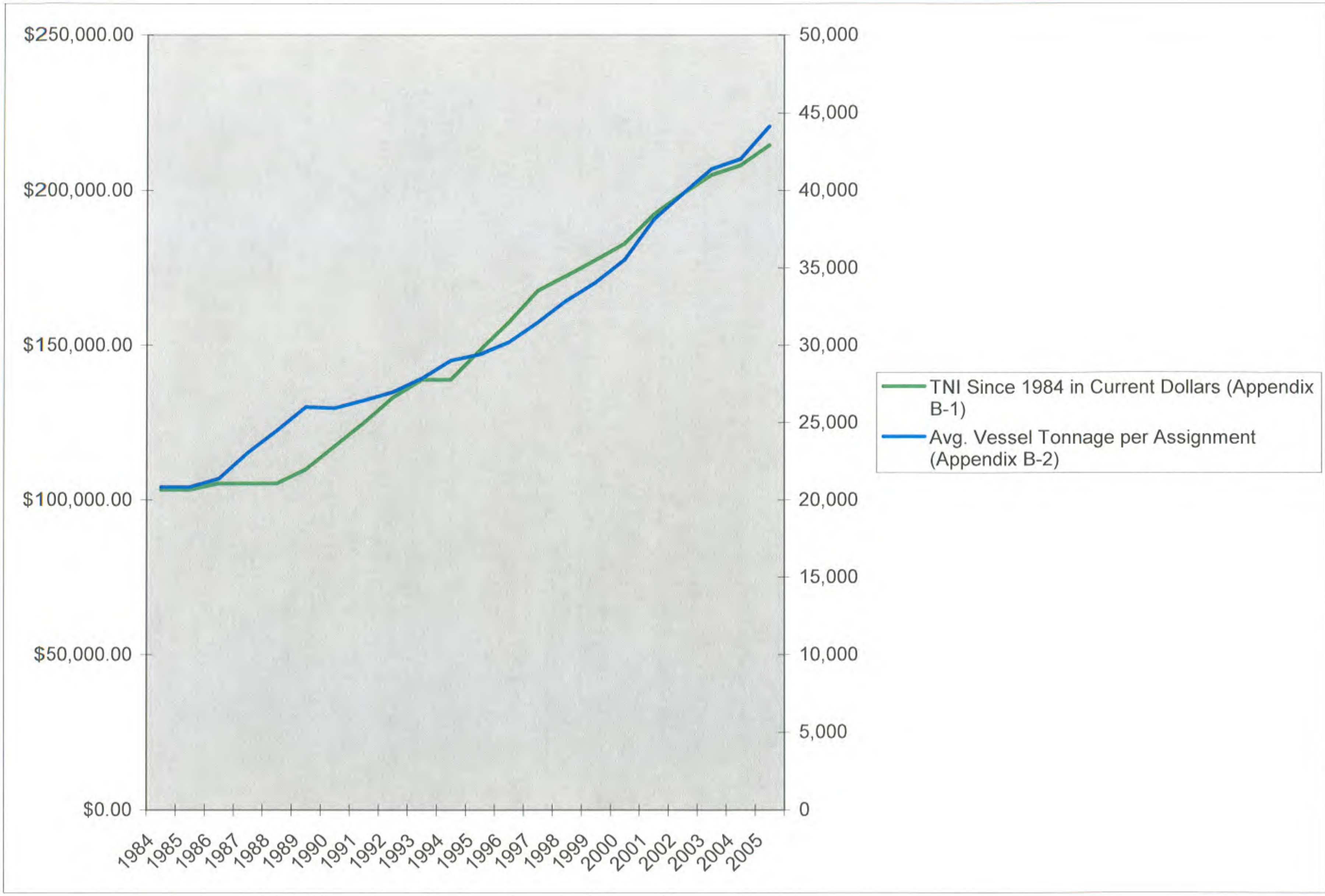


TNI Analysis

The following three graphs provide the following comparisons:

- TNI vs CPI
- TNI vs Tonnage
- TNI vs Ship Tons

These graphs use information provided in the PSP recommendation. They indicate that TNI has essentially matched tonnage while exceeding CPI over the last 10 years. These results mean that TNI has been managed exceedingly well. TNI has outperformed CPI over the life of the MOU and formula, and we know that Net Income exceeded TNI over the same time frame by nearly $200,000 ($85,000 over the last three years alone).



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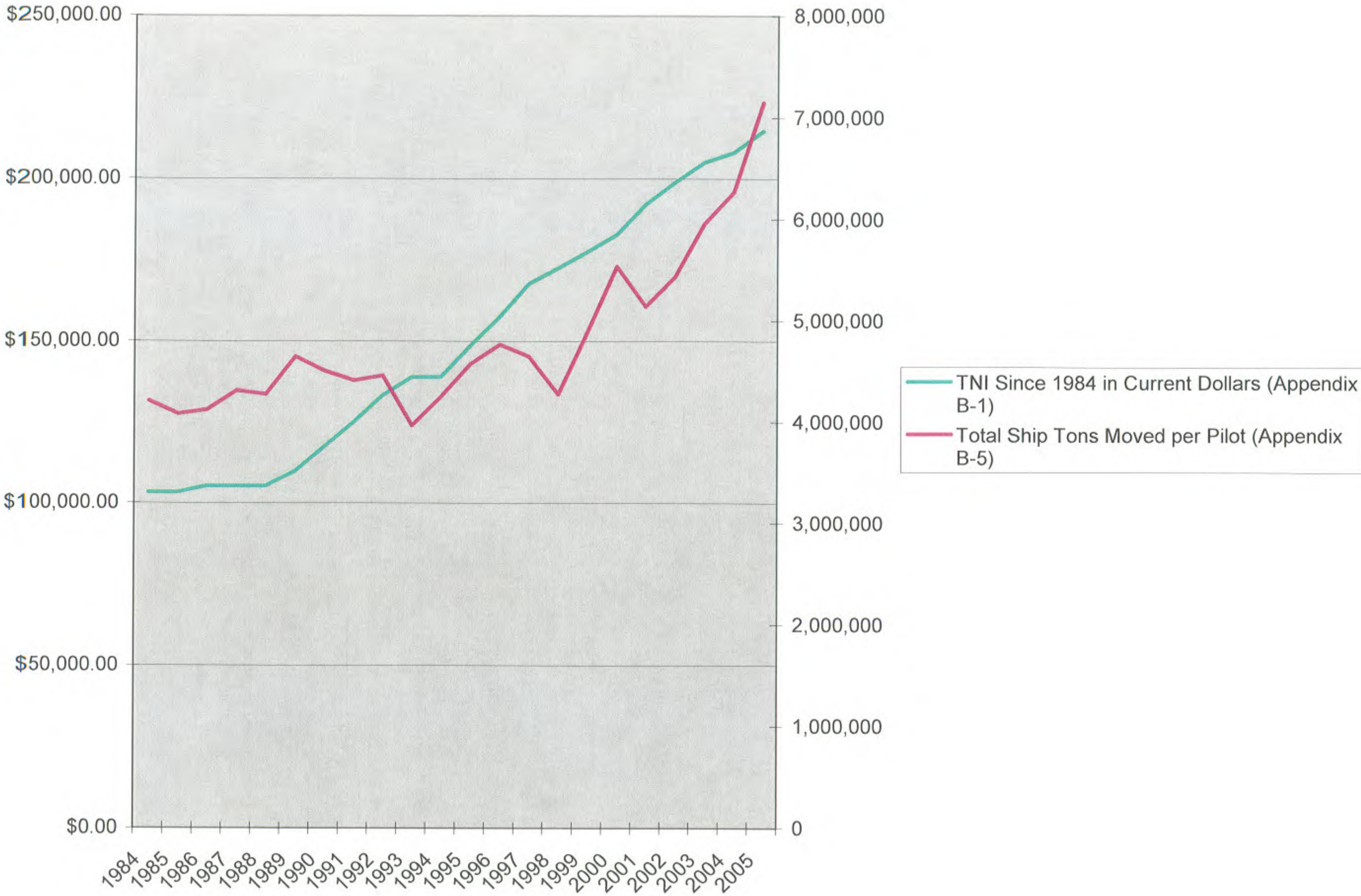
TNI Since 1984 in Current Dollars (Appendix B-1)
Avg. Vessel Tonnage per Assignment (Appendix B-2)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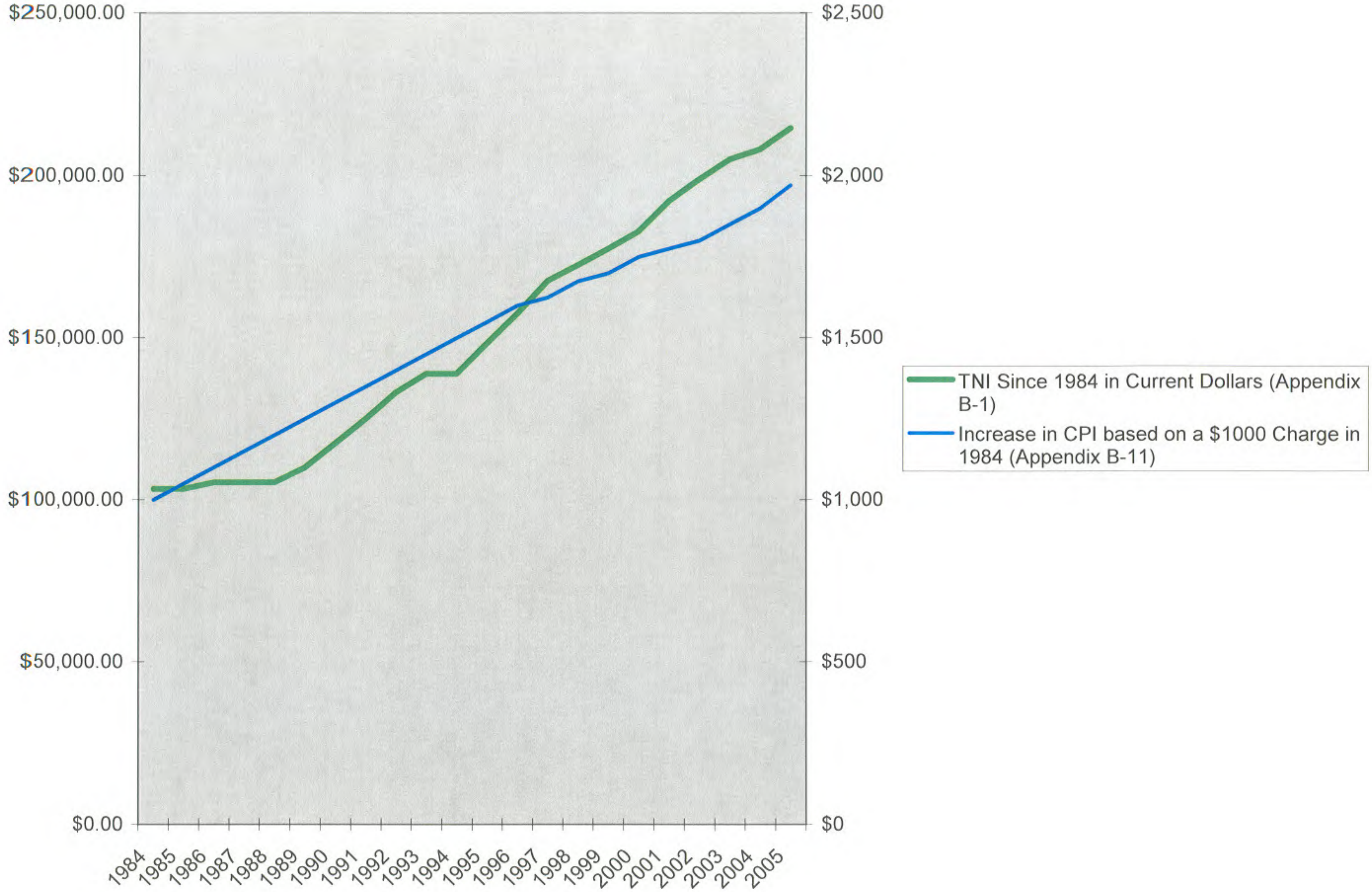
TNI Since 1984 in Current Dollars (Appendix B-1)
Total Ship Tons Moved per Pilot (Appendix B-5)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TNI Since 1984 in Current Dollars (Appendix B-1)
Increase in CPI based on a $1000 Charge in 1984 (Appendix B-11)

Large Vessels Pay a High Premium in Puget Sound

Much has been stated regarding the increasing size of vessels. We know that cruise ships, additional tanker calls and additional vessel shifts as well as the increasing size of container vessels account for the increases in tonnage reported by PSP. The belief that larger ships always require more skill, focus and energy and that this additional effort has been under-compensated has led PSP to seek an increase in the tariff. However, we questioned this assumption which caused us to analyze how various port tariffs behave as vessel size increases.

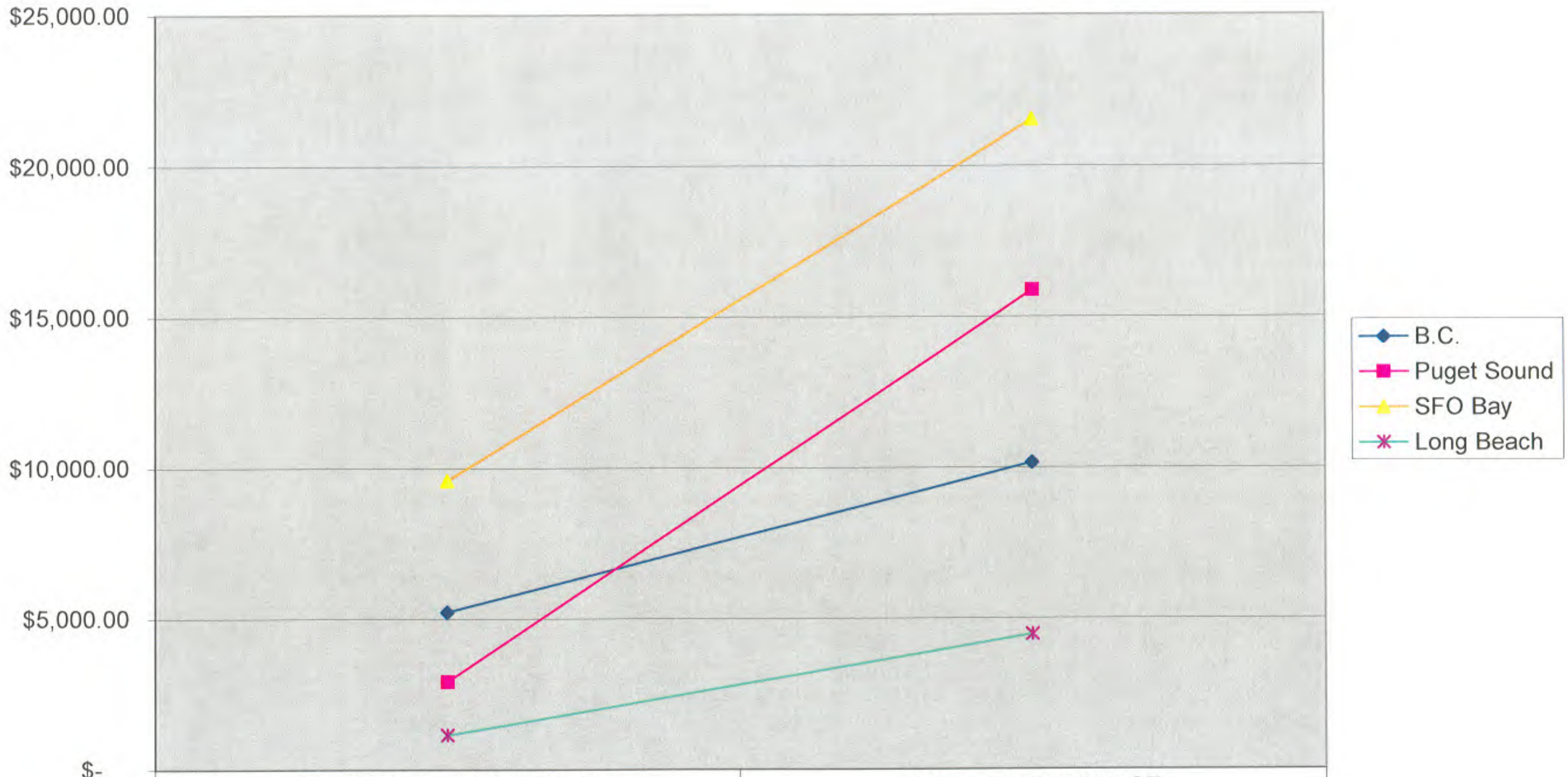
On the enclosed graph you will find the rate of tariff increase between a small tonnage vessel and a large tonnage vessel in four west coast ports. Please note that the Puget Sound rate of increase is the steepest of these examples. Data was derived from actual invoices and calculations.

This means that more revenue is produced per increase in vessel size than in the other ports. The impact of this is as follows:

1. Pilots earn more revenue faster as ship size increases; in other words a vessel mix with increasingly larger vessels will produce much more revenue.
2. General revenue over the past 10 years has gone up more than five times the percentage of tariff increase because larger vessels pay significantly more fees.

Larger vessel designs are incorporating improvements to make them safer, more efficient and more environmentally friendly. There are no tariff adjustments for those ships with innovative designs such as including up to six thrusters, 360 degree propulsion, twin redundant engine rooms and steering systems and other features…and no one is seeking such a change at this time. It is fair and reasonable to recognize that larger vessels are already providing a major share of pilot revenue. PSP is seeking additional compensation in part because vessels are getting larger but the evidence shows that larger vessels in Puget Sound are in fact already paying a higher premium relative to their smaller cousins than they would in other ports.

Large Vessels Pay a High Premium in Puget Sound



	Product tanker 11, 954 GT	Cruise ship 115,875 GT
B.C.	$5,223.78	$10,160.50
Puget Sound	$2,917.06	$15,879.06
SFO Bay	$9,575.44	$21,538.03
Long Beach	$1,156.00	$4,468.00

ANNUAL PENSION BENEFIT ESTIMATION

Until now, the present value of the PSP pension plan benefit has not been discussed or calculated. However, it is a valuable part of every pilot's compensation package and it is a significant future liability particularly if TNI is increased as dramatically and suddenly as PSP proposes. At the request of industry, a local actuary has done an estimate of the current value of the pension benefit expressed as the percentage of current TNI necessary to fund the plan if the plan were **funded** rather than **unfunded**.

ASSUMPTIONS

1) The pension is 1.5% X the number of years of service X the average TNI over the last three years before retirement.
2) The pension is a life annuity with a 50% pension to the surviving spouse and the spouse is three years younger than the pilot.
3) Retirement can occur at any time up to age seventy.
4) Other assumptions: TNI grows at an annual rate of 2.68% ; there is a 5% interest rate.
5) Mortality table used: 94GARU2002

The annual percentage of TNI that would be necessary to fund the pension during the years of service is as follows:

Age at Hire	Retirement age	Annual % of TNI (assume no spouse)
35	62	13.00%
42	62	14.15%
47	62	15.02%
52	62	15.92%

Age at Hire	Retirement age	Annual % of TNI (assume spouse)
35	62	14.25%
42	62	15.51%
47	62	16.46%
52	62	17.45%

Age at Hire	Retirement age	Annual % of TNI (assume no spouse)
35	64	11.65%
42	64	12.69%
47	64	13.48%
52	64	14.30%

Age at Hire	Retirement age	Annual % of TNI (assume spouse)
35	64	12.91%
42	64	14.07%
47	64	14.94%
52	64	15.85%

The extra cost of a sudden increase in TNI as it relates to pensions is very significant. To give an example, assume someone retires on Dec. 31, 2008 at age 65 with twenty years of service. **Under the current TNI**, increased by 2.68% each year, the monthly pension would be equal to:
(1/12) X (($214,665) X (1.0268 + 1.0268^2 + 1.0268^3) / 3) X .015 X 20 = **$5,659 per month**

Should TNI rise as prescribed by PSP, the monthly pension would be equal to:
(1/12) X (($295,00 + $370,000 + 379,916) / 3) X .015 X 20 = **$8,708 per month**

The value of these pensions on Dec 31, 2008 would be:

	With Spouse	Without Spouse
Current pension:	$887,929	$800,913
Under PSP plan:	$1,366,335	$1,232,435

Analysis provided by Albion Actuarial Consulting Inc.

Comp Day Liability Is Significant

Current Liability
According to the Puget Sound Pilots most recently completed Financial Statement and Independent Auditor's Report, total Comp Day value as of December 31, 2005 was approximately **$6,237,252.** We estimate that this represents 9,652 days if this value is based on the 2005 value of one day of net pay.

Increase of Comp Day Liability in 2005 was Significant
Activity in 2005 resulted in an increase of **$1,273,224** over the previous year. This represents approximately 10% of overall pilot net income or the equivalent of nearly 5 full time pilots' worth of annual net pay.

How Does This Relate to TNI and Net Income?
It appears that the present value of comp days is directly related to net income and therefore TNI. Simply put, if TNI is increased 86% to $400,000 in year two of the PSP plan and net pay follows, then total comp day value reported in 2005 would grow to $11,601,288, adjusted by comp days used or accumulated. This liability is easy to overlook, and we urge the Commission to ask questions about comp day accumulation as it relates to work load and as it relates to financial and unfunded liabilities.

Comp Day Value Is Not Reflected in Net Pay
Assignments performed with comp days in 2005 produced revenue that was then distributed to the pilots. This revenue was reflected in the full time net pay of $235,879 each. Without knowing more about comp day accumulation or use, we see the increase of $1,273,224 in 2005 as adding another $25,464 worth of value to each pilot in a single year – this ought to be considered. This is one reason we continue to emphasize a full review and understanding of revenue, income and value associated with completing assignments with off duty pilots.

Comp Day Relationship to Pilot Staffing
The use of comp days provides an opportunity to staff below peak demand if done reasonably. It makes good sense and provides a "win/win" situation. When looking at the dollars involved, we believe that comp day incentives are already substantial. However, we are looking at ways that the comp day system could be restructured to potentially move the incentives from the distant future to the immediate present. At the same time, we anticipate that the Commission will be looking more deeply into workload and comp days when determining methodologies for setting pilot levels.

Pay Comparison and Cost of Living Adjustments

Cost of Living Comparison Graphs

The following graphs provide comparisons between Puget Sound, San Francisco and Los Angeles taking into account the cost of living differences. The first chart compares net income for 2005 as well as for PSP proposals in 2006 and 2007. Puget Sound net income clearly exceeds Los Angeles and is on par with San Francisco in 2005. Puget Sound Pilot net income would significantly exceed the cost of living adjusted net income in both Los Angeles and San Francisco if the PSP proposal was fully implemented. It should be noted that due to unusual increases in compensation, the San Francisco pilot tariffs are frozen while industry and the pilots determine what adjustments should be made.

The second graph looks at net income plus all other dollars received by Puget Sound Pilots including benefits, annual pension value, allowances and comp day value (see pension and comp day tabs for more information on these categories). Cost of living adjusted values for Los Angeles and San Francisco are graphed in comparison to the PMSA/POLAR proposal and the PSP 2006 and 2007. The dollar amounts needed to match the PSP proposals range from $554,000 in LA in 2006 to nearly $800,000 in San Francisco in 2007.

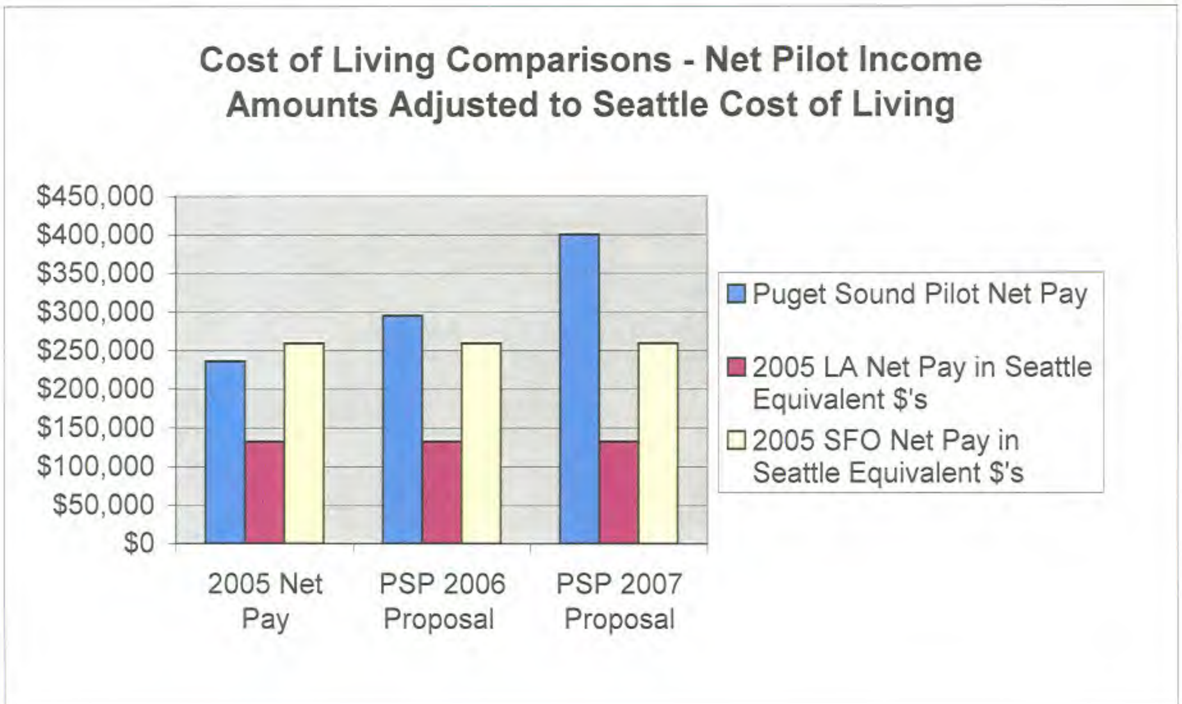
Relative Pay of Other Transportation Related Risk Management Occupations

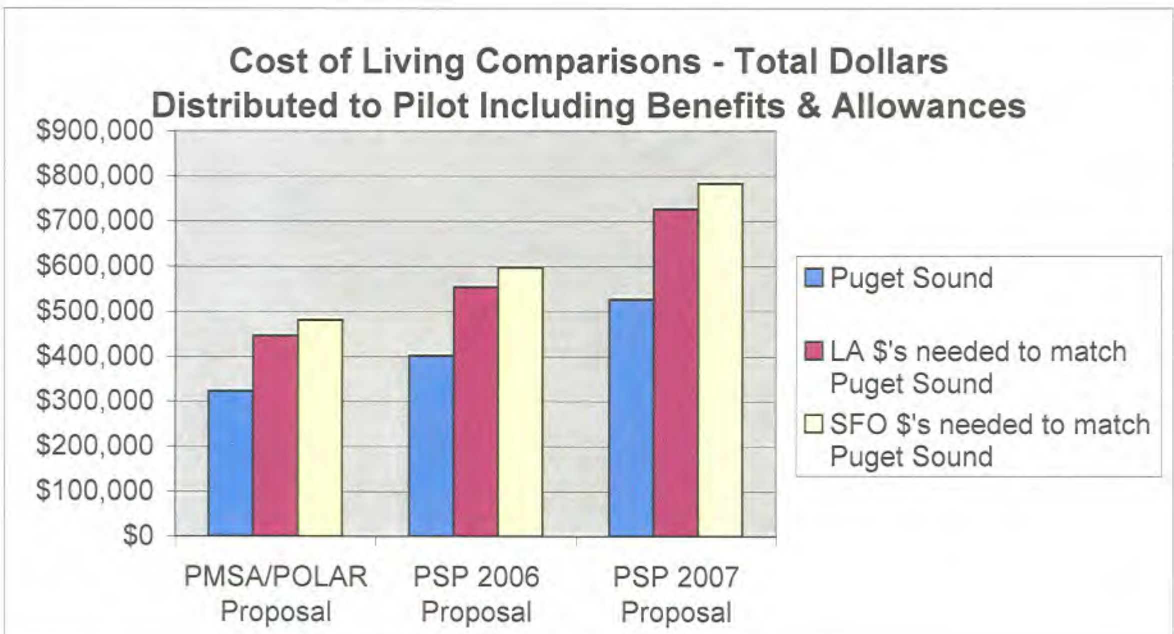
We would agree that the maritime pilot is an important element of the maritime risk management equation. So too is the airline pilot an important element in the aviation risk management equation. Airline pilots are directly responsible for the safe operation of the aircraft, most filled with hundreds of people. The median expected salary for a typical Captain/Pilot in command of a large jet in Washington is $113,497[1]. The median expected total cash compensation is $122,301 and the median total compensation including benefits is $159,777[1]. The highest salary for a Continental airline Captain is $180,704[1]. As we have all heard in the news, many airline pilots and other airline workers have taken pay reductions because of the financial downturn in the airline industry.

> Note 1: Salary.com -- Based on market pricing report prepared using Certified Compensation Professionals analyzing survey data collected from thousands of HR departments at employers of all sizes, industries and geographies.

Puget Sound Pilot Compensation

As employees for companies competing in the market place, airline pilot compensation is subject to significant reductions as has been recently reported. As the Puget Sound Pilots are independent contractors, not company employees, they are not exposed to individual company financial risks nor are they entitled to directly share in profits during good years. The pilots provide a service for which they are well compensated. We look to the Commission to ensure that their compensation is fair and reasonable regardless of the ups and downs of the industry.





Source: PSP Audited Financials; LA Published Salary & SF Expected Pay for 2005 per PSP
Cost of Living Index Information Source: ACCRA, the Council for Community and Economic Research

Pilots swallow 'bitter pill'

JEWEL GOPWANI; Detroit Free Press
DETROIT – A temporary 24 percent pay cut that Northwest Airlines pilots took in November will stick if the pilots ratify the tentative deal their union reached with the carrier Friday.

The Air Line Pilots Association released some details Sunday about the tentative agreement with the airline, which is based in Eagan, Minn., and reorganizing through Chapter 11 bankruptcy.

The two sides had been negotiating around the clock before reaching a deal Friday afternoon. The tentative deal keeps a bankruptcy judge from having to decide whether he should throw out the pilots' contract and allow Northwest to impose lower wages and new work rules, a prospect that prompted the pilots to threaten to strike. A strike would have shut down the airline and could have put it out of business.

Here are key issues addressed in the deal:

• The agreement keeps the 24 percent pay cut and includes raises of 1.5 percent in 2008, 2009 and 2010, and a 2 percent raise in 2011. The pilots' pay cut falls about 4 percent short of the cut Northwest sought in October, said Wade Blaufuss, ALPA communications chair.

• The 24 percent pay cut is on top of previous wage cuts. The pilots took a 15 percent pay cut in 2004, part of a concessionary deal that saved the airline $250 million a year.

• With the 24 percent cut, a Boeing 747 captain in his 12th year who flies 75 hours a month, a typical schedule, saw his base wage drop from $220.88 an hour in flight, or about $198,700 a year, to $168 an hour, or $151,200 annually. A 12th-year DC9 first officer's base hourly wage dropped from $111 an hour in flight, or $99,900 a year, to $84 an hour, or $75,600 a year.

"It's a bitter pill to swallow," Blaufuss said Sunday. "It's like a grieving process. First, there's feelings of anger and denial, and eventually, some pilots may reach that point of acceptance that this is a necessary sacrifice."

Printed in the Tacoma News Tribune on March 7, 2006

Northwest Airlines pilots agree to tentative wage-cutting deal

THE NEWS TRIBUNE (March, 2006)
Pilots reached a tentative pay-cut deal Friday with Northwest Airlines Corp., a major step toward ending a showdown that put the bankrupt airline's future in doubt.

The Northwest branch of the Air Line Pilots Association announced the agreement but didn't release details. The nation's fourth-largest airline said it got the $358 million in savings it sought.

The deal would still have to be approved by the union's leadership and members. The union said its leaders would meet Friday night to consider the agreement.

Pilots were the last Northwest union without a deal.

Northwest is Sea-Tac Airport's fifth-busiest carrier, serving Minneapolis and Detroit in the continental U.S.

The Associated Press

WEST COAST PILOTAGE RATE COMPARISONS

"It is the further intent of the legislature **not to place in jeopardy Washington's position as an able competitor for waterborne commerce** from other ports and nations of the world, but rather to continue to develop and encourage such commerce." (RCW 88.16.005)

In striving to provide safe, competent and efficient pilotage for the state of Washington, it is the Pilot Commission's responsibility to strike a balance between the pilots' desires for increased income and the desires of Washington state ports, businesses and consumers to have Puget Sound remain a reasonably competitive force in the market place.

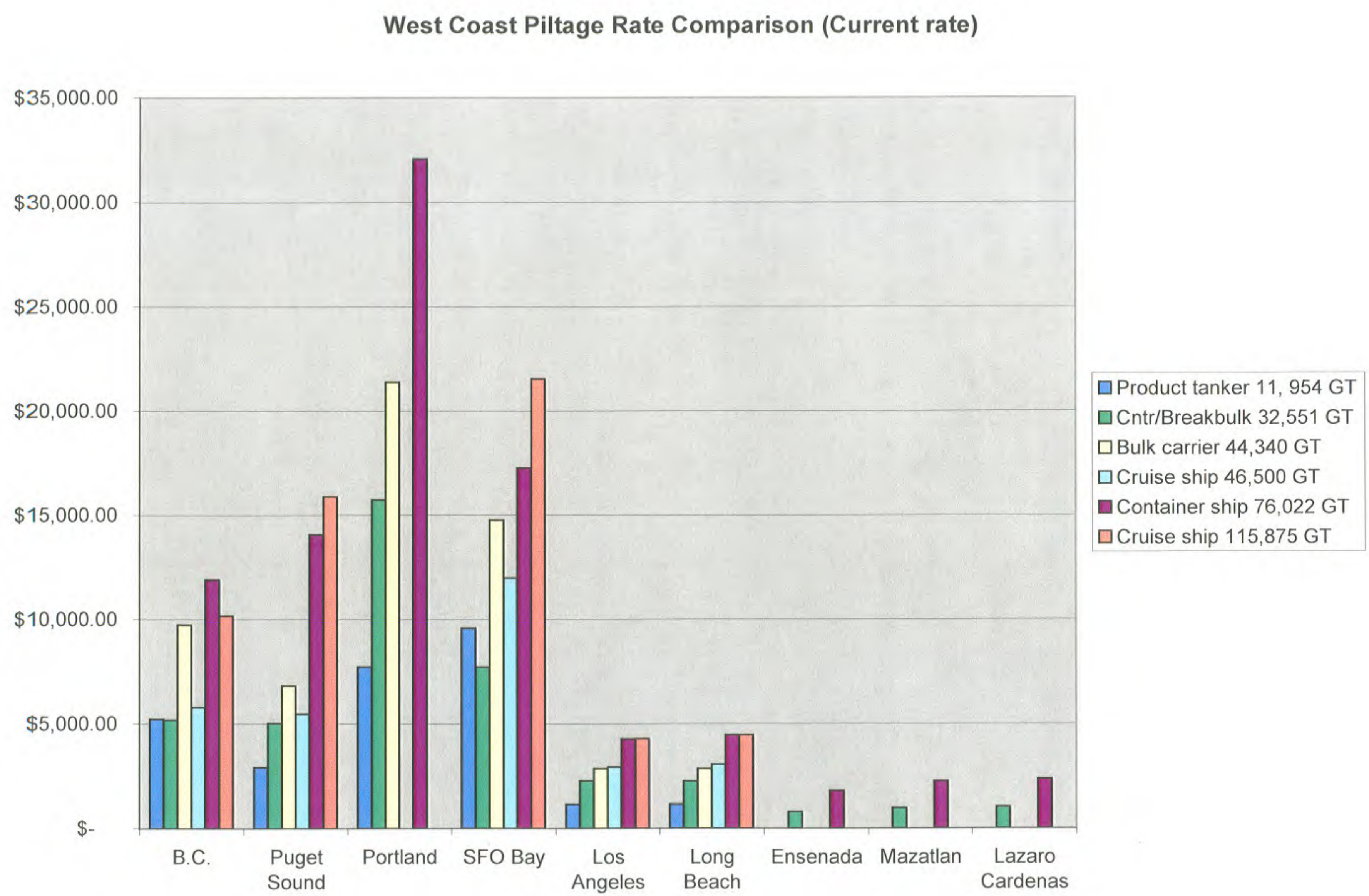
As we are all well aware, Puget Sound is a discretionary port, and we have keen competition for such cargo. Prince Rupert's new container facility is coming on line next year, and Vancouver, B.C. just announced recent growth far greater than Seattle or Tacoma. Southern California remains very competitive with the PNW, and now we are seeing significant investment in Mexican ports just south of the California border. In short, we must always be aware of how we stack up against competing ports in terms of cost, and this is why we include this enclosure.

West Coast Pilotage Rate Comparison (Current Rate)---This graph shows the cost of pilotage for six ships ranging in size from a small product tanker to a large cruise ship. The data was compiled from actual pilotage invoices or by calculating pilotage costs based on current west coast published rates. We did not attempt to control destination within each area due to the difficulty of determining comparable ports up and down the coast. Although the sample size is small, it illustrates the competitive disadvantage we have with southern California and how close we are in rates to our B.C. counterparts.

West Coast Pilotage Rate Comparison (Current rate plus 36%)---Here we attempt to show the effect of PSP's 2006 proposed rate hike by adding a 36% increase to the Puget Sound data. PSP's proposal actually calls for a 40.92% increase for the tariff year but some of that increase comes from standby and delay penalties. In a graph comparing typical port costs, these charges are inappropriate so we decreased our multiplier to take this into account. Obviously such an increase has a dramatic effect on Puget Sound's position on the chart, particularly for large vessels.

Average West Coast Pilotage Rate Comparison (Current; PSP 2006; PSP 2007)--The blue bars are the current average costs for all six vessels at each of the west coast ports. We then took the average of the Puget Sound data increased by 36% (the 2006 PSP proposal), and this yielded the brown bar. We then calculated the 2007 tariff increase based on PSP's request for a TNI of $400,000. This would require a 22.8% tariff increase and would make Puget Sound the second highest pilotage ground on the west coast, all else being equal. While we don't know how other tariffs might change, we do know San Francisco's tariff will remain the same for 2006. Even while revenues were increasing astronomically in San Francisco, their tariff increases did not exceed 6% per year so its unlikely SFO would see a large change in 2007.

See the following articles regarding competitiveness issues facing Puget Sound ports.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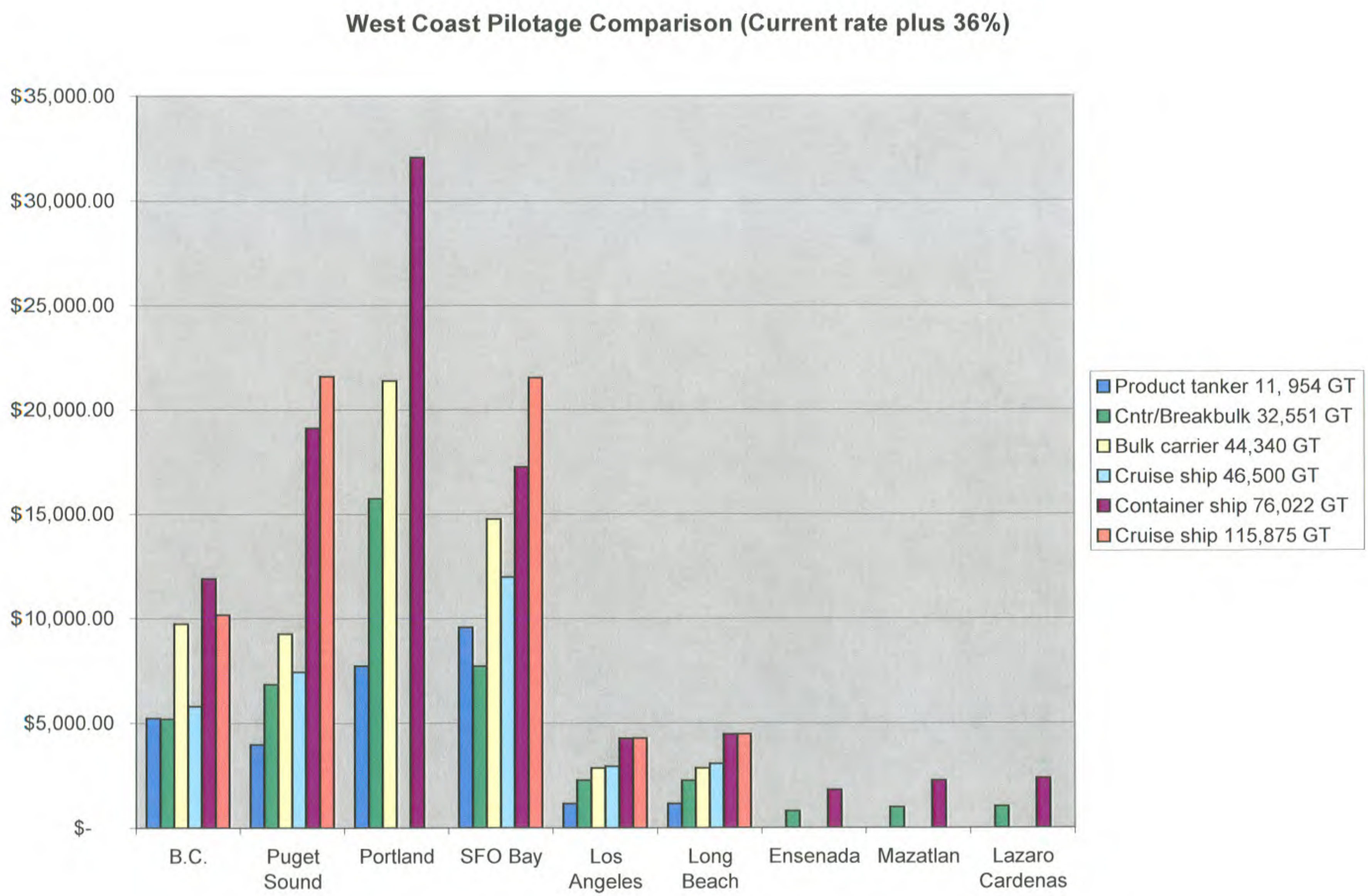
Puget Sound
Portland
SFO Bay
Los Angeles
Long Beach
Ensenada
Mazatlan
Lazaro Cardenas
Product tanker 11, 954 GT
Cntr/Breakbulk 32,551 GT
Bulk carrier 44,340 GT
Cruise ship 46,500 GT
Container ship 76,022 GT
Cruise ship 115,875 GT


West Coast Pilotage Comparison (Current rate plus 36%)
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Average West Coast Pilotage Rate Comparison (Current; PSP 2006; PSP 2007)