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Pilotage Commission

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Mr. Larry L. Vognild, Chair  
Board of Pilotage Commissioners  
Colman Dock - Pier 52  
Seattle, Washington 98104-1487

Dear Mr. Vognild:

As an employee of ARCO Marine, Inc. I represent a company with significant interest in the upcoming tariff hearings. AMI is not a member of the PSSOA. However, we are the largest customer, dollar wise, of the Puget Sound Pilots. Either myself, or my co-worker Jeff Shaw, have attended a majority of the meetings between the pilots and PSSOA. Unfortunately, we find ourselves in a position that coincides with neither party.

Historically, our working relationship with the pilots has been very good. The level of service and oversight provided by the pilots and its management has always met our expectations. We hope to continue that relationship while assisting in the development of a working agreement that will be fair to all constituents.

We believe that a streamlining of the contract is imperative. This will allow focus on the important issues and should simplify future tariff negotiations. Our goal is to arrive at a clear and concise understanding of the agreement, its assumptions, its data, its projections, and interpretations. Essentially, we would like to see a tariff formula without ambiguity and with a clearly documented structure that will facilitate productive negotiations.

In this light, we believe there are 3 major categories that need to be discussed: compensation, expenses, and capital outlays. The latter should be easily identified and accounted for, and we believe the least contentious. Compensation is generally the most volatile of the issues as it includes the requirement to define the number of pilots needed. We believe that the assignment-level method of determining numbers of pilots is too complex. Currently, each adjustment applied to the base assignment level is open to interpretation on both sides and detracts from the real issue of settling an equitable compensation structure. In our opinion, that issue is one of bridge hours worked per pilot. Negotiating a level of bridge hours will clearly define what industry is actually paying for and the service level each pilot is providing. It eliminates the need to define

and negotiate all the adjustments to a set assignment level, and allows control of these issues to lie where it should -- with the management of the pilot association.

We believe the current level of approximately 740 bridge hours worked per pilot [arrived at by multiplying: Assignments per Pilot (149.36) x Bridge Time per Assignment (4.95 hours)], to be a solid base from which to start. The only adjustment to that, a permanent one, would be for industry and the pilots to split training time set at one week. Essentially, this would reduce time on the bridge to 722 hours. [3.5 days = 84 hrs/2 = 42 hrs, 2090 (current assignment level) - 42 hrs = 2048 hrs 2048/2090 = .9757 x 740 = 722 bridge hours.] Taking the projected number of movements for next year and multiplying this figure by the average bridge time it takes for a movement, quite simply, gives a total of the number of hours needed to satisfy the required service level. This figure generates the need for 53 pilots -- 7,752 movements x 4.95hrs (average bridge hours per move) = 38,372 bridge hrs/ 722 bridge hrs per pilot = 53.15 pilots + 1 (President) = 54 pilots.

With the removal of the Blair Bridge, it is anticipated that the assignment levels will drop by a maximum of 450 movements. This translates into a need for 3 fewer pilots. However, the projection of ship movements is anything other than an exact science. It is of no benefit to either the industry or the Puget Sound Pilots to have a pilot level that exceeds the required service level. However, it is paramount that industry receives full service by rested pilots at all times. We believe the addition of 1 more pilot to the reduced level of 51 pilots will achieve this. Therefore we support a total pilot level of 52 pilots and are prepared to review this on an on-going basis.

With the pilots working a 2 week on and 2 week off schedule, and a vacation level of 2 weeks per year, each pilot should be available 4,200 hrs per year. Obviously, the pilots need a level of rest that provides for safe and alert operations at all times. If the total annual hours (including training) for a Puget Sound pilot continues at 2,090 hrs/year, the rest period equating to approximately 50% of the work time should ensure well rested and alert pilots.

The establishment of any format to gauge a pilot level is partially dependent on the association's management having the flexibility to provide service in times of high volume movements. Essentially, this is accomplished by calling back pilots not on assigned duty and compensating them with time off in the future. Comp day accumulation should be seen as, and rewarded as, an efficiency within the pilot organization. It allows the association to operate with an adequate level of pilots while being able to meet the irregular schedule of vessel arrivals. Currently, comp days are carried in the notes to the financial statements as an unfunded liability. We believe that comp days should be fully funded either in the current year or retrospectively in the following year. Individual pilots should be able to receive compensation exclusive of the target net income, or bank the days and the compensation go to a funding account for future use. We understand that this to be an issue to which the pilots should agree internally, and see this as a major item for future discussion. Therefore, we support the current method of banking comp days for future use.

We believe the compensation currently provided to the Puget Sound Pilots to be below a level consistent with the industry average. Having read numerous reports on Pilot compensation (the names of these reports can be provided) we feel the level should rise to meet this average. Therefore we support a compensation level in the mid-range of the spread between \$155,000 and \$160,000. This will ensure that the association will attract and retain fully qualified personnel. It will also provide equitable compensation when compared to other organizations that provide the same type and level of service.

#### Expenses

##### Seattle Station:

The difference between the PSSOA and the Puget Sound Pilots' projected operating expense for the Seattle station equates to \$68,166. This is an additional 4.26% to the PSSOA projection. The first line item that accounts for the majority of this difference is dues of \$60,435.00 payable to various associations, maritime groups, and business organizations. In the past, the board approval has been far below this level, and I see no reason to change the comparative level of funding that the board has seen fit to approve. Therefore we cannot support the pilots in their request for this funding level.

The second line item refers to travel and entertainment expense. We do not consider the Puget Sound Pilots to be an extravagant pilot organization. The requested sum represents approximately 1.9% of the expenses when adjusted for the first item. We do not believe this to be excessive, and support the pilots request for this amount.

##### Port Angeles Station:

The difference between the 2 projected totals amounts to \$33,000, an increase over the PSSOA projection of approximately 11.9%. This is accounted for in a single line item referring to the repositioning of pilots. In discussions with the pilots, we support the contention that an increase in funding for this item will allow for greater flexibility in repositioning. This should ensure all movements are carried out by well-rested pilots. With the unpredictability of vessel arrivals and a potential for high volumes of movement in a short period, we feel it is appropriate for both parties to meet half-way. Therefore, we support a level of funding of \$119,000, and encourage both parties to monitor these expenses closely to provide a clearer understanding for future negotiations.

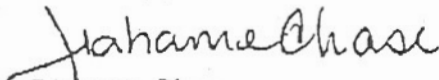
The pilot boat projections differ by \$7,814, or .81% over the projection offered by the PSSOA. We have no comment on the difference and would hope both parties could come to a quick agreement on this small difference.

##### Individual Expenses — per pilot.

We see no reason to disallow the increase associated with higher state license fees. When factored out, the level is consistent — adjusted to the CPI -- with the 1994 board approved level. Therefore we find these expenses to be appropriate. Additionally, we find funding for transportation to be consistent with prior years and a possible need for higher levels of repositioning in 1995. We support the pilots request for this funding level.

In summation: we believe that each tariff negotiation should bring the pilots and industry closer to a clearer understanding and agreement on all issues. However, we realize that all issues cannot be resolved at once. This year, we would hope to see consensus on the vessel traffic formula, and the change from a set assignment level per pilot to "bridge hours to be worked" per pilot. Progressively, we would hope to see a radical simplification of the tariff formula that will allow all parties to fully understand the process and the data elements connected to it. Quite honestly, we have been impressed by the pilots' willingness to entertain new ideas and ways for arriving at an equitable funding level. While there are still issues that need to be discussed in following negotiations, we fully believe that the pilots will come to the table in good faith. Additionally, we believe it will be beneficial for all parties to arrive at a jointly developed process. One that allows for reduction in time and effort in preparation of these tariff negotiations.

Your truly,

  
Grahame Chase