

PACIFIC MERCHANT SHIPPING ASSOCIATION  
RESPONSES TO UTC STAFF'S DATA REQUEST NOS. 1-5 TO PMSA

DATE PREPARED:	July 8, 2020	WITNESS:	John Ramirez, ASA
DOCKET:	TP-190976	RESPONDER:	Pacific Merchant Shipping
REQUESTER:	UTC Staff		Association, John C. Ramirez

**UTC STAFF DATA REQUEST NO. 2:**

On page 9 of his testimony, Mr. Ramirez uses the term “fair return on their labor.” Please provide any material, including but not limited to any documents, articles, papers, or other material supporting the use of Discounted Cash Flow or Capital Asset Pricing Model to derive a “fair return” on labor.

**RESPONSE:**

Mr. Ramirez responds as follows:

In my testimony, I did not apply the Discounted Cash Flow (“DCF”) or Capital Asset Pricing Model (“CAPM”) to derive a fair return on (or cost of) labor. To derive a fair return on (or cost of) labor; I relied on salary data for comparable pilotage labor.

The DCF and CAPM are not typically used to derive a fair return on (or cost of) labor. The DCF and CAPM are used to derive a return on equity.

However, in the context of ratemaking, the DCF and CAPM do consider a fair cost of labor in the derivation of the return on equity. This is because the return on equity derived from the DCF and CAPM is based on income returns available to equity capital holders that are calculated after fair and reasonable business operating expenses (including labor expense, i.e., a fair cost of labor).