

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,
Complainant,
v.
PUGET SOUND PILOTS,
Respondent.**

Docket TP-220513

**REBUTTAL TESTIMONY OF
DAVID LOUGH
ON BEHALF OF PUGET SOUND PILOTS**

MARCH 3, 2023

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3 **I. IDENTIFICATION OF WITNESS**

4 **Q: Please state your name and position for the record.**

5 A: My name is David Lough. I am an executive compensation consultant with Ascend
6 Consulting based in Seattle, Washington.

7
8 **II. PURPOSE OF TESTIMONY**

9 **Q: What is the purpose of your testimony?**

10 A: My rebuttal testimony responds to PMSA positions on fair and reasonable net income for
11 PSP pilots, the role of compensation in the success of a DEI program and also updates my prior
12 testimony regarding the median net income earned by members of pilot groups throughout the
13 United States based on all the publicly available information through March 1, 2023.

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15 **Q: As you saw from their testimony, UTC Staff advocates for a level of distributable**
16 **net income for PSP pilots that is unchanged from the \$410,075 that went into effect under**
17 **Order 09 in January 2022 and the PMSA through Captain Moore actually proposes that**
18 **DNI be reduced by 15% to \$346,391. What is your opinion on whether either of these**
19 **proposed DNI figures represents pilot compensation that is "fair, just, reasonable, and**
20 **sufficient for the provision of pilotage services" in Puget Sound?**

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22 A: It is "fair and reasonable" to offer compensation opportunities that are aligned with and
23 equivalent to what is paid by comparable pilotage districts across the nation for similar and
24 comparable work. UTC Staff proposes a net income rate of \$410,075, which is close to or at the
25 bottom of the set of twelve comparable districts listed in the table on page 6. It represents a
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1 gross undervaluation of the service that a Puget Sound ship pilot performs for the benefit of
2 owners and operators of marine terminals and U.S. and foreign vessels as well as the citizens of
3 the Puget Sound region. This is not fair and not reasonable. It is a flawed approach. Even more
4 flawed is the PMSA proposal to cut DNI by 15% to \$346,391. Not only is this not “fair and
5 reasonable,” but such massive pay reductions unaccompanied by a declaration of financial
6 exigency or equivalent emergency situation is not “just.” It would most certainly be interpreted
7 as unjust by the members of Puget Sound Pilots and would risk extreme workforce disruption
8 and backlash to an act of such poor judgment and utmost disrespect. Even major pay reductions
9 under emergency circumstances are typically implemented as temporary, while the PMSA
10 proposal goes so far as to offer no provisions for pay restoration. It would be irresponsible to
11 even consider such a proposal as put forth by the PMSA.
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14 **Q: In your opinion, will a failure on the part of the Commission to approve a DNI that**
15 **is nationally competitive have a negative impact on the morale of the PSP pilot corps?**

16 A: Yes. There is significant risk that, without demonstrable alignment of PSP DNI with rates
17 among comparable districts, compensation treatment will be perceived as unfair, unreasonable
18 and unjustifiable by the members. Experiences and observations of employers across all sectors
19 indicate that a rate at or above the midpoint (median) of rates among comparable organizations
20 will be considered fair and respectful treatment. Rates below that risk unfavorable impact on
21 employee morale, productivity and effectiveness in proportion to the degree of negative
22 deviation.
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1 **Q: What is your response to PMSA DEI expert Kathleen Nalty's position that an**
2 **increase in pilot net income in this rate case is unnecessary to advance PSP's pilot corps**
3 **diversification efforts?**

4 A: I disagree. While compensation in and of itself will not suffice to constitute a
5 comprehensive DEI program, if compensation is too low, the success of all efforts to advance
6 and improve an organization, including achieving DEI, are put at risk due to the distraction,
7 disruption and resentment that poorly conceived and/or executed compensation treatment
8 engenders.

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11 **Q: Since the filing of your original testimony on June 29, 2022, have you become aware**
12 **of additional pilot income and benefits data that is relevant to your analysis in this case?**

13 A: Yes. I received either updated information from pilot groups listed in the table that is
14 Exhibit DL-06 or data from a new pilot group not included in that table.

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16 **Q: Have you updated that table with the benefit of the additional data?**

17 A: Yes. The updated table is set out below:
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PILOT GROUP INCOME & BENEFITS

	PILOT GROUP	NO. OF PILOTS	DATE OF AUDIT/ORDER	NET INCOME	PROJ. NET INCOME 1/2023	MED. INS. IN TARIFF	PENSION ACCRUAL %	PENSION FUNDING	COLA
1	Crescent River Port Pilots	118	2021	\$586,019	\$621,693	Yes	2%	Farebox	Yes, LPFC 2021 Order
2	Port Everglades Pilots	18	2019	\$549,998	\$607,095	Yes	2.5% (50% Cap)	Farebox	Yes, 2.5% thru 2024
3	New Orleans-Baton Rouge Pilots (NOBRA)	119	2021	\$565,518	\$594,127	Yes	2% (50% Cap)	Farebox	Yes, per LPFC Order
4	Lake Charles Pilots	17	2020	\$533,436	\$550,000	Yes	Individual Pilots	Individual Pilots	Yes, per LPFC Order
5	Associated Branch Pilots	49	2021	\$521,232	\$547,619	Yes	2% (50% Cap)	Farebox	Yes, per LPFC Order
6	Columbia River Bar Pilots	16	2021	\$445,555	\$503,527	Yes	1.25%	Tariff	Yes, Western CPI
7	Columbia River Pilots	41	2021	\$445,555	\$503,527	Yes	1.25%	Tariff	Yes, Western CPI
8	Grays Harbor Pilots	2	2022	\$487,259	\$497,759	Yes	Washington PERS	Public Funding	Yes, Contract (3%-5%)
9	LA Harbor Pilots	16	2019	\$434,712	\$456,719	Yes	City of LA PERS	Public Funding	No
10	San Francisco Bar Pilots	51	2018 2019 2020 2021	\$520,250 \$499,415 \$428,539 \$328,154	\$443,923 (Average)	No	1.84%	Farebox	No
11	Great Lakes Pilots	49	2022	\$412,841	\$422,336	No	Individual Pilots	Pilot Group	Yes, 5.0% CPI (Fed Reserve)
12	Puget Sound Pilots	52	2021 DNI 2021 Actual	\$400,855 \$295,616	Unknown	No	1.50%	Farebox	2.3% in 2022
13	St. Johns Bar Pilots	14	2020	\$564,000	\$607,366	Yes	1.75-2.0% (50% cap)	Farebox	2.5%

Q: Please describe the source of new income and benefits data in each instance on the above table.

A: The table adds new data related to lines 11 and 13. On line 11, the projected 2023 net income for the Great Lakes Pilots was increased to \$422,336 based upon a notice in the Federal Register from the US Coast Guard noting that this increase was pursuant to a cost-of-living adjustment. The Federal Register notice is Exh. DL-26. Line 13 is entirely new and adds the data from a public order of the Florida Board of pilotage commissioners dated July 1, 2020 approving a target net income for the St. Johns Bar Pilots of \$564,000 for 2020. The order also

1 specifies a 2.5% annual cost-of-living adjustment. With those adjustments for three years, the
2 projected net income for 2023 is \$607,366. This Order is Exh. DL-27.

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5 **Q: With the benefit of the additional pilot income and benefits data that you just**
6 **described, did you update the table on page 18 of your original testimony regarding pay**
7 **differentials from location to Seattle?**

8 A: Yes. The updated pay differentials table is set out below:

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10 **PAY DIFFERENTIALS FROM LOCATION TO SEATTLE**

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	Pilot Group	Office Location		Differential (source: Salary.com)
12	1 St. Johns Bar Pilots	Atlantic Beach	FL	16.3%
13	2 Crescent River Port Pilots' Association	Metairie	LA	10.5%
14	3 Port Everglades Pilots' Association	Ft. Lauderdale	FL	12.3%
15	4 Lake Charles Pilots	Lake Charles	LA	20.7%
16	5 New Orleans Baton Rouge Steamship Pilots Association (NOBRA)	Metairie	LA	10.5%
17	6 Associated Branch Pilots/BAR	Metairie	LA	10.5%
18	7 Pilotage Division of the Port of Grays Harbor	Aberdeen	WA	9.1%
19	8 Columbia River Pilots	Astoria	OR	6.3%
20	9 Columbia River Bar Pilots	Portland	OR	5.3%
21	10 Great Lakes Pilots Associations	Port Huron	MI	8.4%
22	11 Los Angeles Pilot Service	Los Angeles	CA	-3.3%
23	12 San Francisco Bar Pilots	San Francisco	CA	-12.5%

24 Information for St. John's Bar Pilots (line 1) has been added. Information for all other
25 organizations remains the same.

26
27 **Q: With the benefit of the new and/or updated pilot group income data described**
28 **above, did you update the 2023 pilot group net income table on page 19 of your original**
29 **testimony, which derives the median net income figure of all listed pilot groups?**

30 A: Yes. The updated median net income figure table is set out below:

	Pilot Group	Projected 2023 Net Income	Location Adjustment to Seattle Metro	Adjusted Projected 2023 Net Income
1	1 St. Johns Bar Pilots	607,366	16.3%	706,367
2	2 Crescent River Port Pilots' Association	621,693	10.5%	686,971
3	3 Port Everglades Pilots' Association	607,095	12.3%	681,768
4	4 Lake Charles Pilots	550,000	20.7%	663,850
5	5 New Orleans Baton Rouge Steamship Pilots Association (NOBRA)	594,127	10.5%	656,510
6	6 Associated Branch Pilots/BAR	547,619	10.5%	605,119
7	7 Pilotage Division of the Port of Grays Harbor	497,759	9.1%	543,055
8	8 Columbia River Pilots	503,527	6.3%	535,249
9	9 Columbia River Bar Pilots	503,527	5.3%	530,214
10	10 Great Lakes Pilots Associations	422,336	8.4%	457,812
11	11 Los Angeles Pilot Service	456,719	-3.3%	441,647
12	12 San Francisco Bar Pilots	443,923	-12.5%	388,433
	50th Percentile (Median)	525,573	9.2%	574,087

11 **Q: Based on the analysis you performed as reflected in the above table, what is the**
12 **updated median net income figure for the pilot groups analyzed?**

13 A: Due to the addition of St. John's Bar Pilots, the highest paying among all, to the set of
14 comparable organizations, the result for projected median 2023 DNI has increased from
15 \$543,055 to \$574,087. With a larger sample size, there is now a more accurate and more
16 credible representation of the middle (median) DNI rate among comparable districts for
17 reference as a basis in setting the rate for Puget Sound Pilots.

20 **Q: In light of this updated median net income figure, what is your opinion regarding**
21 **the level of distributable net income or DNI that is necessary for PSP to be competitive**
22 **nationally in attracting a fair share of the best pilot trainee candidates in the United States?**

23 A: All of those who oversee and govern the financial condition and operation of an
24 organization in the interest of short-term success and long-term sustainability must weigh the
25 costs, benefits and risks of their selected approach to positioning employee compensation against
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1 the rates paid by comparable employers. Paying above the middle (median) rate results in
2 additional costs, but may also result in additional benefits that offset and outweigh the marginal
3 costs due to increased morale, commitment, efficiency, productivity and effectiveness on the part
4 of the workforce. Paying below the median rate saves money, but, at some level of deviation,
5 produces excessive and intolerable risk of negative impacts, financial and otherwise, that can be
6 directly attributable to poor treatment in terms of compensation. It becomes a matter of
7 judgement for those who oversee and govern the organization to determine the optimal
8 positioning for that organization within the range of practices exhibited by comparable
9 employers. My testimony provides an accurate, credible, justifiable and defensible portrayal of
10 the current median rate as \$574,087. I advise minimal deviation from this rate without a strong
11 rationale for, on the upside, why benefits will exceed marginal costs or why, on the downside,
12 savings will outweigh risks. In the absence of a very good reason otherwise, pay the median
13 rate.
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16 **III. CONCLUSION**

17 **Q: Does this conclude your testimony?**

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19 **A: Yes.**
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