



Pilotage Rate Methodology Proposal¹

Staff-led Technical Workshop

July 22, 2024

PSP is considering the use of an operating margin rate methodology for setting pilotage rates, consistent with other UTC-regulated transportation companies, in order to include a fair return in its tariff rates, independent of the pilots' TDNI.

The current revenue requirement formula being used to set pilotage rates is concerning because it does not include a return (profit). And any cost variances or unanticipated expenses between rate cases (regulatory lag) must be paid from pilot income.

Currently, the revenue requirement formula for pilotage is:

$$\text{Revenue Requirement} = \text{TDNI} + \text{Expenses} + \text{Depreciation} + \text{Interest}$$

Using the results of TP-220513, PSP's revenue requirement is currently calculated as shown below ...

Revenue Requirement	42,061,480
Operating Expenses (including gross up)	<u>15,420,432</u>
Net Distributive Revenue – TDNI	26,641,048

Therefore, PSP believes it would be appropriate to include operating margin in the rate methodology^{2&3} for setting rates for pilotage service at the UTC. The revised revenue requirement formula would be:

$$\text{Revised Revenue Requirement} = \text{TDNI} + [(\text{Expenses} + \text{Depreciation} + \text{Interest})/.90]$$

Again, using the results of TP-220513, PSP's revenue requirement would be calculated as shown below ...

TDNI	26,641,048
Operating Expenses (including gross up)	15,420,432
Operating Margin	<u>.90</u>
Operating Revenue (including 10% return of \$1,713,381)	<u>17,133,812</u>
Revenue Requirement	43,774,860

The operating margin methodology proposed here (and explained further below) uses PSP's operating revenue and expenses (including depreciation and interest). To determine PSP's operating revenue, TDNI is separated from PSP's tariff revenue and subtracted (as a contra account) from revenue. PSP's operating margin will represent the percentage of revenue remaining after paying all operating expenses and TDNI.

While different rate-setting methodologies are used for different UTC-regulated industries, all of them include a return for the company. And the transportation companies regulated by the UTC use a form

¹ in compliance with TP-190976 Order 09 & TP-220513 Order 08

² TP-190976, Order 09, Pg 114 ¶390 & Pg 126 ¶493

³ TP-220513, Order 08, Pg 16 ¶162 & Pg 73 ¶270 & ¶272



of operating margin to set tariff rates. As a UTC-regulated transportation company, PSP proposes an operating margin rate methodology for future rate cases.

Looking back to PSP’s inaugural case, which resulted in a two-year rate plan, the operating margin approach would have provided a return of \$1,760,960 in year one and \$1,665,897 in year two. This would have enabled PSP to cover unanticipated expenses with additional revenue, instead of exclusively with pilot income. These amounts are supported by the authorized TDNI and expenses that resulted from TP-190976 Order 09.

Order 09 – Year 1

TDNI		20,042,750
Operating Expenses (including gross up)	15,848,640	
Operating Margin	<u>.90</u>	
Operating Revenue (including 10% return of \$1,760,960)		<u>17,609,600</u>
Revenue Requirement		37,652,350

Order 09 – Year 2

TDNI		21,323,883
Operating Expenses (including gross up)	14,993,076	
Operating Margin	<u>.90</u>	
Operating Revenue (including 10% return of \$1,665,897)		<u>16,658,973</u>
Revenue Requirement		37,982,856

Layout of Revised Results of Operations Model

The attached Revised Results of Operation model uses the information from PSP’s last general rate case (TP-220513) and shows how the operating margin rate methodology can be applied to pilotage service rate setting.

The layout of the Revised Results of Operation model is quite similar to the previous model layout. But for comparison purposes, I have also included a copy of the model currently being used for pilotage rate setting. Both models are populated with the same information - the results of TP-220513 Order 08.

The changes being proposed include:

- Moving non-regulatory items below the line – which include interest income, comp day expense, and pilot medical.
- Displaying TDNI as a contra account under revenue.
- Calculating PSP’s net income (as opposed to net distributive revenue).

Benefits of a revised revenue requirement formula and the supporting model:

- The Revised Results of Operation model provides a streamlined view of the regulatory information needed by the UTC.
- It appropriately removes non-regulatory items (including comp day expense and pilot medical) from the operating margin calculation.
- Operating revenue is determined by displaying TDNI as a contra account.
- TDNI is identified rather than pilot income being “whatever is left.”
- PSP will be provided an opportunity to earn an authorized return, independent of TDNI.

Puget Sound Pilots
Results of Operations
For the 12 months ended December 31, 2021

Revised - as proposed by PSP
Technical Workshop Discussion

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
Line #	Account #	Description	Per Books TYE 12/31/2021	Restating Adjustments	Restated Results	Pro Forma Adjustments	Pro Forma Results	(TP-220513) Authorized Increase	Results at New Rates
1		Revenues							
2	40100-000	Pilotage Fees Earned	30,238,966	(2,135,376)	28,103,589	5,469,069	33,572,658	6,630,117	40,202,775
3	40120-000	Boat Fees Earned	1,839,876		1,839,876		1,839,876		1,839,876
4		Earned Revenue	32,078,842	(2,135,376)	29,943,465	5,469,069	35,412,534	6,630,117	42,042,651
5									
6	40230-000	Finance Charges	17,825		17,825		17,825		17,825
7		Gross Revenue	32,096,667	(2,135,376)	29,961,291	5,469,069	35,430,360	6,630,117	42,060,477
8									
9		TDNI	16,397,575		16,397,575		16,397,575	10,243,473	26,641,048
10		Total Operating Revenue	15,699,092	(2,135,376)	13,563,715	5,469,069	19,032,784	(3,613,356)	15,419,429
11									
12		Expenses							
13	50050-009	Administrative Expenses	32,504		32,504		32,504		32,504
14	50100-009	Attorney Fees	462,577	(462,577)	(0)	124,069	124,069		124,069
15	50150-009	Bank Fees	18,582		18,582		18,582		18,582
16	50290-009	UTC Regulatory Fees	123,336		123,336		123,336		123,336
17	50300-006	Commission-Senate Bill 5096	150,000		150,000	(150,000)	-		-
18	50500-	Computer Maintenance	337,774	(57,211)	280,562	19,070	299,633		299,633
19	50600-009	Computer Programming, Changes	10,177		10,177		10,177		10,177
20	50700-009	Consulting Fees	212,347	(173,443)	38,904	43,588	82,492		82,492
21	50800-009	CPA Fees	86,307		86,307		86,307		86,307
22	50850-009	Donations	7,000	(7,000)	-		-		-
23	50870-009	DEI Outreach	-		-	20,000	20,000		20,000
24	50880-009	DEI Donations	-		-		-		-
25	50900-	Dues	171,950		171,950	18,493	190,443		190,443
26	51000-	Employee Health & Welfare	288,457		288,457	56,446	344,904		344,904
27	51100-	Employee Pension	124,517		124,517	14,584	139,101		139,101
28		Employee 401(k)	-		-	18,000	18,000		18,000
29	51100-009	Retirement Plan, Manager	4,929		4,929		4,929		4,929
30	51200-009	Equipment Leases	335,820	152,998	488,817		488,817		488,817
31	513##-	Depreciation	82,800	207,939	290,739		290,739		290,739
32	51430-006	Drug Testing	10,297		10,297		10,297		10,297
33	51440-	Education	1,510		1,510		1,510		1,510
34	51500-	Food & Lodging - PA	84,844		84,844		84,844		84,844
35	51600-	Insurance	395,521		395,521	38,128	433,649		433,649
36	51765-009	Interest, Dispatch Software	125		125		125		125
37	51900-007	Laundry - P.A.	10,257		10,257		10,257		10,257
38	51940-006	License Fees - Pilots	344,500		344,500	19,500	364,000		364,000
39	51950-009	Lobbyist	75,309	(75,309)	-		-		-
40	52050-009	Miscellaneous - Other	(362,969)	362,969	-		-		-
41	52100-	Office Supplies & Charts	14,613		14,613		14,613		14,613
42	52220-	Pilots Pension	5,517,478		5,517,478	451,219	5,968,697		5,968,697
43	52250-009	Penson-Other	69,502		69,502		69,502		69,502
44	52300-	Postage & Printing	8,674		8,674		8,674		8,674
45	52560 & 52660	Pilot Boat Fuel	304,363		304,363	207,236	511,599		511,599
46	52570-008	Puget Sound, Prev. Maintenance	468,974	(398,441)	70,532		70,532		70,532
47	52670-008	Juan de Fuca, Prev. Maintenance	20,773	105,212	125,985		125,985		125,985
48	52900-	Rents	192,682		192,682		192,682		192,682
49	52950-	Repairs & Maintenance	57,528		57,528		57,528		57,528
50	52955-006	Remodel/Relocation - Seattle	385		385		385		385
51	53010-	Salaries	1,764,396		1,764,396	159,064	1,923,459		1,923,459
52	53100-	Subscriptions	8,587		8,587		8,587		8,587
53	53200-	Supplies	30,714		30,714		30,714		30,714
54	53320-	Payroll Taxes	135,225		135,225		135,225		135,225
55	53360-	Property Taxes	20,602		20,602		20,602		20,602
56	53370-	Use Taxes	551		551		551		551
57	53370-009	Taxes, B & O	599,698		599,698	171,643	771,341	144,537	915,878
58	53400-	Telephone & Communications	44,174		44,174		44,174		44,174

Puget Sound Pilots
Results of Operations
For the 12 months ended December 31, 2021

Revised - as proposed by PSP
Technical Workshop Discussion

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
Line #	Account #	Description	Per Books TYE 12/31/2021	Restating Adjustments	Restated Results	Pro Forma Adjustments	Pro Forma Results	(TP-220513) Authorized Increase	Results at New Rates
59	53500-006	Training, Pilots	80,695		80,695	201,034	281,729		281,729
60	53600-006	Transportation Expense	1,257,855		1,257,855	(28,256)	1,229,599		1,229,599
61	53700-	Conferences/Travel	30,595		30,595	(23,710)	6,885		6,885
62	53800-007	Utilities - P.A.	29,645		29,645		29,645		29,645
63		Rate-case-specific expenses TP-220513	-		-	594,472	594,472		594,472
64		Total Operating Expenses	13,666,178	(344,865)	13,321,313	1,954,581	15,275,894	144,537	15,420,431
65		Net Operating Income (Loss)	2,032,914		242,402		3,756,891		(1,002)
66									
67		Other Income & Expenses							
68	40200-000	Interest Income	1,003		1,003		1,003		1,003
69		Total Other Income	1,003	-	1,003	-	1,003	-	1,003
70									
71	50450-006	Comp Day Expense	389,350	(389,350)	-				-
72	51620-006	Insurance - Medical	1,644,567		1,644,567	(1,644,567)	-		-
73		Total Other Expenses	2,033,917	(389,350)	1,644,567	(1,644,567)	-	-	-
74		Net Other Income (Loss)	(2,032,914)	389,350	(1,643,564)	1,644,567	1,003	-	1,003
75		Net Income (Loss)	(0)		(1,401,162)		3,757,893		1

Rate Methodologies

current method

RR = Expenses + Depreciation + Interest + TDNI

NDR - TDNI	16,379,750	26,641,049
Revenue Requirement		42,061,479
Expenses, Depreciation & Interest		(15,420,431)
Net Distributive Revenue (TDNI)		26,641,048

proposed method

RR = TDNI + [(Expenses+Depreciation+Interest)/.90]

TDNI		26,641,048
Operating Expenses		15,420,431
Operating Margin		0.90
Operating Revenue		17,133,812
Revenue Requirement		43,774,860
Operating Margin		90.00%

Puget Sound Pilots
Statement of Operations/Pro Forma
For the 12 months ended December 31, 2021

TP-220513 Order 08 Results
Technical Workshop Discussion

Line No.	(a) Account Number	(b) Description	(c)	(d)	(e)	(f)	(g)	(h)	(i)
			Per Books TYE 12/31/2021	Restating Adjustments	Restated Results	Pro Forma Adjustments	Pro Forma Results	(TP-220513) Authorized Increase	Results at New Rates
1	Account: 40100-000	Pilotage Fees Earned	30,238,966	(2,135,376)	28,103,589	5,469,069	33,572,658	6,630,117	40,202,775
2	Account: 40120-000	Boat Fees Earned	1,839,876		1,839,876		1,839,876		1,839,876
3		Pilotage Receipts	32,078,842	(2,135,376)	29,943,465	5,469,069	35,412,534	6,630,117	42,042,651
4									
5	Account: 40200-000	Interest Income	1,003		1,003		1,003		1,003
6	Account: 40230-000	Finance Charges	17,825		17,825		17,825		17,825
7		Interest Inc & Finance Chg	18,828	-	18,828	-	18,828	-	18,828
8		Total Revenue	32,097,670	(2,135,376)	29,962,293	5,469,069	35,431,363	6,630,117	42,061,480
9									
10		Expenses							
11	Account: 50050-009	Administrative Expenses	32,504		32,504		32,504		32,504
12	Account: 50100-009	Attorney Fees	462,577	(462,577)	(0)	124,069	124,069		124,069
13	Account: 50150-009	Bank Fees	18,582		18,582		18,582		18,582
14	Account: 50290-009	UTC Regulatory Fees	123,336		123,336		123,336		123,336
15	Account: 50300-006	Commission-Senate Bill 5096	150,000		150,000	(150,000)	-		-
16	Account: 50450-006	Comp Day Expense	389,350	(389,350)	-		-		-
17	Account: 50500-	Computer Maintenance	337,774	(57,211)	280,562	19,070	299,633		299,633
18	Account: 50600-009	Computer Programming, Changes	10,177		10,177		10,177		10,177
19	Account: 50700-009	Consulting Fees	212,347	(173,443)	38,904	43,588	82,492		82,492
20	Account: 50800-009	CPA Fees	86,307		86,307		86,307		86,307
21	Account: 50850-009	Donations	7,000	(7,000)	-		-		-
22	Account: 50870-009	DEI Outreach	-		-	20,000	20,000		20,000
23	Account: 50880-009	DEI Donations	-		-	-	-		-
24	Account: 50900-	Dues	171,950		171,950	18,493	190,443		190,443
25	Account: 51000-	Employee Health & Welfare	288,457		288,457	56,446	344,903		344,903
26	Account: 51100-	Employee Pension	124,517		124,517	14,584	139,101		139,101
27		Employee 401(k)	-		-	18,000	18,000		18,000
28	Account: 51100-009	Retirement Plan, Manager	4,929		4,929		4,929		4,929
29	Account: 51200-009	Equipment Leases	335,820	152,998	488,817		488,817		488,817
30	Account: 513#-	Depreciation	82,800	207,939	290,739		290,739		290,739
31	Account: 51430-006	Drug Testing	10,297		10,297		10,297		10,297
32	Account: 51440-	Education	1,510		1,510		1,510		1,510
33	Account: 51500-	Food & Lodging - PA	84,844		84,844		84,844		84,844
34	Account: 51600-	Insurance	395,521		395,521	38,128	433,649		433,649
35	Account: 51620-006	Insurance - Medical	1,644,567		1,644,567	(1,644,567)	-		-
36	Account: 51765-009	Interest, Dispatch Software	125		125		125		125
37	Account: 51900-007	Laundry - P.A.	10,257		10,257		10,257		10,257
38	Account: 51940-006	License Fees - Pilots	344,500		344,500	19,500	364,000		364,000
39	Account: 51950-009	Lobbyist	75,309	(75,309)	-		-		-
40	Account: 52050-009	Miscellaneous - Other	(362,969)	362,969	-		-		-
41	Account: 52100-	Office Supplies & Charts	14,613		14,613		14,613		14,613
42	Account: 52220-	Pilots Pension	5,517,478		5,517,478	451,219	5,968,697		5,968,697
43	Account: 52250-009	Penion-Other	69,502		69,502		69,502		69,502
44	Account: 52300-	Postage & Printing	8,674		8,674		8,674		8,674
45	Account: 52560 & 52660	Pilot Boat Fuel	304,363		304,363	207,236	511,599		511,599
46	Account: 52570-008	Puget Sound, Prev. Maintenance	468,974	(398,441)	70,532		70,532		70,532
47	Account: 52670-008	Juan de Fuca, Prev. Maintenance	20,773	105,212	125,985		125,985		125,985
48	Account: 52900-	Rents	192,682		192,682		192,682		192,682
49	Account: 52950-	Repairs & Maintenance	57,528		57,528		57,528		57,528
50	Account: 52955-006	Remodel/Relocation - Seattle	385		385		385		385
51	Account: 53010	Salaries	1,764,396		1,764,396	159,064	1,923,460		1,923,460
52	Account: 53100	Subscriptions	8,587		8,587		8,587		8,587
53	Account: 53200	Supplies	30,714		30,714		30,714		30,714
54	Account: 53320	Payroll Taxes	135,225		135,225		135,225		135,225
55	Account: 53360	Property Taxes	20,602		20,602		20,602		20,602
56	Account: 53370	Use Taxes	551		551		551		551
57	Account: 53370-009	Taxes, B & O	599,698		599,698	171,643	771,341	144,537	915,878
58	Account: 53400	Telephone & Communications	44,174		44,174		44,174		44,174
59	Account: 53500-006	Training, Pilots	80,695		80,695	201,034	281,729		281,729
60	Account: 53600-006	Transportation Expense	1,257,855		1,257,855	(28,256)	1,229,599		1,229,599

Puget Sound Pilots
Statement of Operations/Pro Forma
For the 12 months ended December 31, 2021

TP-220513 Order 08 Results
Technical Workshop Discussion

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
Line No.	Account Number	Description	Per Books TYE 12/31/2021	Restating Adjustments	Restated Results	Pro Forma Adjustments	Pro Forma Results	(TP-220513) Authorized Increase	Results at New Rates
61	Account: 53700-	Conferences/Travel	30,595		30,595	(23,710)	6,885		6,885
62	Account: 53800-007	Utilities - P.A.	29,645		29,645		29,645		29,645
63		Rate-case-specific expenses TP-220513	-		-	594,472	594,472		594,472
64									
65		Total Expenses	15,700,095	(734,215)	14,965,880	310,014	15,275,894	144,537	15,420,431
66									
67		Distributive Revenue - TDNI + Return	16,397,575	(1,401,162)	14,996,413	5,159,056	20,155,469	6,485,580	26,641,049
		Authorized TDNI							26,641,048