

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

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

**Docket TP-**

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

**JUNE 29, 2022**

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2  
3 **I. IDENTIFICATION OF WITNESS**

4 **Q: Please state your name, business and business address.**

5 A: David Lough. I am a executive and management level compensation consultant with a  
6 Seattle-based firm that I founded in 1999, Ascend Consulting. My business address is 139 NE  
7 63<sup>rd</sup> Street, Seattle, WA 98115.

8  
9 **Q: Please describe your educational background and work history.**

10 A: I received a B.A. in social psychology from Cornell University in 1974 and earned an  
11 M.B.A. from The Wharton School at the University of Pennsylvania in 1976.

12 Prior to founding my current consulting practice in 1999, I spent 23 years as a  
13 compensation consultant with major consulting firms. I spent 10 years as a partner with Towers  
14 Perrin, at the time the world's largest human resources consulting firm, in the Seattle, San  
15 Francisco and Calgary, Canada offices. Before that, I spent five years with The Hay Group, at  
16 the time the world's largest compensation consulting firm. During this period, I was based in the  
17 firm's worldwide headquarters in Philadelphia where I consulted on matters of executive,  
18 director and performance-based compensation. Subsequently, prior to joining Towers Perrin in  
19 1986, I spent five years with Donworth, Taylor and Co., a regional firm based in Seattle,  
20 practicing throughout the Northwest in executive compensation, sales compensation and salary  
21 management. A copy of my biography is Exhibit DL-02.  
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## II. PURPOSE OF TESTIMONY.

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

2 A: I will provide testimony regarding the cash compensation available to workers in the  
3 maritime transportation industry and a compilation of publicly available and verifiable  
4 information regarding cash compensation (“net income”) for licensed maritime pilots in the  
5 United States. All data is the most recently available. Based on that compilation of net income  
6 data, I will offer my opinion of what I consider to be a level of 2023 per-pilot target distributable  
7 net income (“DNI”) for Puget Sound Pilots that is aligned with and reflective of a middle-of-the-  
8 market annual rate compared to other major pilot groups throughout the nation. In doing so for  
9 Puget Sound Pilots, it is important to note that I took into account that, across the full spectrum  
10 of industries and job specialties, including those associated with maritime transportation, the  
11 Seattle regions’s pay rates are among the highest in the country. Currently, average cash  
12 compensation across all occupations and specialties in the Seattle metropolitan area exceeds  
13 nationwide market averages by about 10%. Generally, among human resources professionals  
14 and organization leaders alike, aligning pay opportunities with mid-market practices of  
15 organizations who employ similar jobs while taking into account geographical differentials is  
16 considered externally fair and equitable treatment of staff, important values in any organization.  
17 It is also considered sufficient for attracting and retaining required talent without introducing  
18 excessive or unjustifiable costs. Accordingly, aligning its target DNI with location-adjusted mid-  
19 market net income rates of other pilot groups follows generally accepted practices among  
20 employers and properly positions Puget Sound Pilotage District to attract high-caliber mariners  
21 from each of the marine transportation occupational pipelines that produce qualified potential  
22 candidates for a PSP trainee position.  
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1 **Q: How large a group of individuals make up the universe of licensed maritime pilots**  
2 **in the United States?**

3  
4 A: Based upon information maintained by the American Pilots Association, the trade  
5 association representing all state-licensed pilots in the United States and the federally licensed  
6 pilots on the Great Lakes, the total number of licensed maritime pilots in this country is  
7 approximately 1,236. The APA's list of U.S. pilot groups and the current number pilots in each  
8 group is Exhibit CLD-03.

9  
10  
11 **Q: Of the 50 groups on the APA's pilot group list, how many pilot groups have made**  
12 **their income and benefit levels publicly available from 2018 to the present?**

13 A: Working with PSP's legal counsel, who has extensive experience representing pilot  
14 groups, and PSP's leadership, we have searched for, identified and obtained audited financial  
15 statements or public rate orders issued by a government pilot group regulator from a total of 13  
16 pilot groups, in addition to Puget Sound Pilots, since January 1, 2018.

17  
18  
19 **Q: Do you consider the pilot income and benefit data set from these 13 pilot groups to**  
20 **be a reasonably representative sample of pilot income and benefit levels throughout the**  
21 **United States?**

22 A: Yes, for two reasons. First, the total membership of the 13 pilot groups for which there is  
23 publicly verifiable income and benefits information totals 496 pilots, which is 42% of the total  
24 number of maritime pilot licensees in the country outside of Puget Sound Pilots. Both the  
25 relatively large number of pilots in the sample and the large share of the nationwide universe of  
26

1 pilots establish a high level of statistical confidence in data analysis. Second, the data comes  
2 primarily from major U.S. pilot groups with 15 or more licensees. The data set is therefore  
3 particularly appropriate to determining what income and benefit levels should be paid to Puget  
4 Sound Pilots, an organization with over 50 licensees. PSP is the eighth largest pilot group in the  
5 U.S.

6 **Q: Given that the publicly available pilot income and benefit data that you have**  
7 **collected is found in audits, rate orders or other regulator-required filings spread over a**  
8 **period of four and one-half years, how can one compare those differing income and benefit**  
9 **levels on an apples to apples basis?**

10 A: It is my understanding that PSP is requesting that the UTC issue a new Final Order  
11 establishing new pilot rates that fund higher levels of distributable net income and benefits  
12 effective in January, 2023. Assuming that the Final Order in this rate case will be issued in  
13 January 2023, we have used two methods to project where the net income from the pilot groups  
14 with publicly available data will be as of that month. Of the 13 pilot groups, a total of 11 have  
15 annual cost-of-living adjustments (“COLAs”) that are either tied to specified percentages in the  
16 rate order or to a particular cost-of-living index. For those groups with a specified approach to  
17 the COLA, the table on page 10 uses the specified percentages to project where each pilot  
18 group's net income level will be as of January, 2023. In a few instances, where there is no COLA  
19 specified, we have used a 2.5% annual adjustment as a proxy for the increased net income on  
20 that pilotage ground associated with improved traffic levels in 2021 and 2022 compared to 2020,  
21 the year where traffic was most impacted by Covid-19. If new publicly available information  
22 enables me to update these figures, I will supplement my testimony.  
23  
24  
25  
26

1           **A.     Maritime Industry Compensation Generally.**

2     **Q:     How would you describe the compensation of maritime workers in the United States**  
3     **as a general matter?**

4  
5     A:     In general, the labor statistics in the U.S. show that maritime workers are paid well above  
6     average compared to the wages of other workers. The U.S. Department of Labor, Bureau of  
7     Labor Statistics ("BLS") compiles employment and wage statistics by occupational categories.  
8     The relevant category here is 53-5021, Captains, Mates and Pilots of Water Vessels. The  
9     occupational summary is: "Command or supervise operations of ships and water vessels, such as  
10    tugboats and ferryboats." The BLS reports total employment in this category at 33,490 workers  
11    whose median (50<sup>th</sup> percentile) hourly and annual wages are \$39.25 per hour and \$81,640  
12    annually. This information is from *Occupational Employment and Wages*, May 2021, U.S.  
13    Bureau of Labor Statistics, <https://www.bls.gov/oes/current/oes535021.htm> (last modified Mar.  
14    31, 2022, visited Jun. 14, 2022. By comparison, U.S. employment in all occupations (code 00-  
15    000) is 140,886,310 workers earning median hourly wages of \$22.00 per hour, which is \$45,760  
16    annually. This information is from *May 2021 National Occupational Employment and Wage*  
17    *Estimates United States*, U.S. Bureau of Labor Statistics,  
18    [https://www.bls.gov/oes/current/oes\\_nat.htm#00-0000](https://www.bls.gov/oes/current/oes_nat.htm#00-0000) (last modified Mar. 31, 2022, last visited  
19    Jun. 14, 2022).

20  
21  
22           Wages paid to tugboat captains are particularly relevant because the tow boat industry is  
23    one of the occupational feeder pipelines from which PSP pilots are drawn. One of the major  
24    unions representing tow boat workers in Puget Sound and on the Columbia River is the  
25    International Boatmen's Union. A copy of the contract between Tidewater Barge Lines and the  
26

1 IBU Is Exhibit DL-03. Based on this contract, IBU captains in 2022 are being paid \$72.23 per  
2 straight-time hour as of August 1, 2022.

3 IBU tug captains in the Pacific Northwest work a standard maritime schedule of equal  
4 amounts of time on/time off, typically two weeks on followed by two weeks off. During the on-  
5 duty work period, tug captains are on the bridge 12 hours per day in two six-hour watches. This  
6 means work over 182 1/2 days annually with pay for 12 hours per day, which converts to an  
7 annual rate of \$158,183 using the hourly wage rate effective as of August 1, 2022.

8 The Pacific Maritime Association (“PMA”) is a trade association representing over 50  
9 terminal operators and other maritime employers on the West Coast. The PMA issues an annual  
10 report that contains statistical information regarding the wages paid to longshore workers  
11 represented by the International Longshore and Harbor Workers Union (“ILWU”). According to  
12 the 2021 PMA Annual Report, as of December 2021, PMA member organizations employed  
13 more than 15,500 registered longshore, clerk and foreman workers at 29 West Coast ports, and  
14 thousands more “casual” or part-time workers. The wages paid to these workers are described  
15 beginning at page 19 of the report. A sidebar recites the history of longshore straight-time wage  
16 rates, from July 1, 1934 (\$0.95/hour) to July 4, 2021 (\$46.23/hour). However, the straight-time  
17 wage rate does not tell the whole story, as made clear in the PMA report:  
18  
19

20 **How does \$46.23 an hour add up to \$195,000 a year?**

21 Unlike most workers, the wages earned by ILWU members are not solely  
22 determined by the basic longshore rate of \$46.23 per hour.

23 \*\*\*

24 A review of annual earnings, found on page 61, shows that full-time registered  
25 workers (those paid 2,080 hours or more) earn, on average, nearly \$207,000 per  
26 year. For longshore registrants, the average was \$194,350. For clerks, it was  
\$217,651. And for foremen, it was \$311,656.

1 Average annual earnings for all full-time longshore workers total nearly \$207,000. For  
2 longshore foreman, annual earnings are over \$311,656. From a net income or distributable net  
3 income standpoint, employer-paid benefits must also be considered. For longshore workers,  
4 those benefits include medical, vision, dental, alcohol and substance abuse disorder and life  
5 insurances, pay guarantees, disability benefits and retirement benefits. In 2021, the average  
6 healthcare cost per ILWU registrant was \$54,550. Moreover, total benefits to these workers cost  
7 PMA employers nearly \$1.6 billion in 2020-21. Retirement benefits are especially generous in  
8 that they include both a defined benefit pension plan paying up to \$95,460 per year, which fully  
9 vests after five years of employment, plus a 401(k) plan with both employee deferrals and  
10 employer contributions. A copy of the PMA Annual Report is Exhibit DL-04.  
11

12 **Q: Are the wages for ILWU workers subject to an annual cost-of-living adjustment?**

13 A: Yes, at least for the full term of the existing collective bargaining agreement with the  
14 PMA, which expires on June 30, 2022.

15 **Q: Can you project where ILWU wages will be for 2023?**

16 A: No. Reports in the press indicate that negotiations are underway, but no resolution has  
17 been announced. A *New York Times* article entitled "New Supply Chain Risk: 22,000  
18 Dockworkers Who May Soon Strike," dated March 28, 2022 contains a quote from PMA CEO  
19 Jim McKenna stating that the odds for a deal without labor turmoil are "50-50." However, given  
20 the currently high level of inflation in the United States, some increase in the labor rates for  
21 ILWU workers is likely. A copy of the *New York Times* article is Exhibit DL-05. In the event  
22 that the PMA and ILWU reach agreement during the pendency of this rate case on a new  
23 collective bargaining agreement, I will promptly supplement the record with that information.  
24  
25

26 **B. Pilot Compensation and Benefits.**

1 **Q: How would you characterize the level of compensation and benefits earned by state-**  
2 **licensed maritime pilots in the United States?**

3 A: Maritime pilots are a small population of professional mariners who are at the pinnacle of  
4 a maritime career directing the navigation of vessels in U.S. waters. As Exhibit CLD-03 shows,  
5 there are only 1,236 maritime pilots in the United States. This represents just 3.6% of the total  
6 employment of 33,490 vessel captains, mates and pilots reported by the Bureau of Labor  
7 Statistics. By comparison, there are about 1,700 football players in the NFL, a larger population  
8 than pilots. Their current median annual salary is \$860,000. This amount does not include  
9 bonuses, which can be lucrative. There are numerous highly paid medical specialties where  
10 average annual cash compensation of practitioners is over \$500,000 per year and up to \$750,000  
11 or more. These include cardiology, plastic surgery and radiation oncology, among more than a  
12 half dozen others. Much as for these illustrative groups, maritime pilots are a *corps d'elite* whose  
13 jobs require a rare combination of knowledge, talents, skills, character and capabilities that  
14 command premium compensation for their services and performance.  
15  
16

17  
18 **Q: Based upon your background and experience and review of the statistical**  
19 **information related to maritime industry employment in the U.S., what is your overall**  
20 **perspective regarding the level of compensation and benefits that should be paid to licensed**  
21 **maritime pilots in light of the compensation benefits levels enjoyed by other workers in the**  
22 **U.S. maritime industry?**

23  
24 A: My perspective on this issue was informed in part by the relatively high pay levels earned  
25 by workers throughout the maritime industry in the United States, but also by the unique  
26 characteristics of the maritime pilot profession described in the testimony of APA Executive

1 Director and General Counsel Clay Diamond, PSP President Captain Ivan Carlson, PSP Vice  
2 President Captain Eric Klapperich and safety expert Captain Mitchell Stoller. Considering the  
3 high levels of pay earned by both blue-water and brown-water captains of vessels on U.S. waters  
4 or serving on U.S. oceangoing vessels, it is my opinion that the increased danger associated with  
5 boarding and disembarking ships via pilot ladder (which is a major danger factor unique to the  
6 pilotage profession) and the massive levels of responsibility and legal risk imposed on the  
7 maritime pilot working as an independent contractor vs. a vessel captain employed on a tugboat,  
8 ferry or oceangoing vessel warrants a substantial compensation premium for licensed maritime  
9 pilots over vessel captains otherwise employed in the U.S. merchant marine. Becoming a ship  
10 pilot represents a major career advancement for any large ship captain and few possess the career  
11 experiences, credentials and track record of success required to qualify.  
12

13 **Q: Does the income and benefits data that you have assembled as part of your**  
14 **testimony in this rate proceeding show a substantial income and benefits differential**  
15 **between employed U.S. vessel captains and licensed maritime pilots?**

16 A: Yes. Depending upon the pilot group, that differential is anywhere from \$150,000 to over  
17 \$400,000. The table summarizing pilot income and benefits for a total of 12 pilot groups  
18 (aggregating the three Great Lakes pilot groups as one) is Exhibit DL-06 and reproduced on the  
19 next page.  
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**PILOT GROUP INCOME & BENEFITS**

	<u>PILOT GROUP</u>	<u>NO. OF PILOTS</u>	<u>DATE OF AUDIT/ORDER</u>	<u>NET INCOME</u>	<u>PROJ. NET INCOME 1/2023</u>	<u>MED. INS. IN TARRIF</u>	<u>PENSION ACCRUAL %</u>	<u>PENSION FUNDING</u>	<u>COLA</u>
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	\$520,250		No	1.84%	Farebox	No
			2019	\$499,415	\$443,923				
			2020	\$428,539	(average)				
			2021	\$328,154					
11	Great Lakes Pilots	49	2022	\$399,266	\$419,229	No	Individual Pilots	Pilot Group	Yes, 5.0% CPI (Fed Reserve)
12	Puget Sound Pilots	52	2021 DNI	\$400,855	Unknown	No	1.50%	Farebox	2.3% in 2022
			2021 Actual	\$295,616					

**Q: Please describe what is shown on the Pilot Group Income & Benefits table that is included in your testimony and marked as Exhibit DL-05.**

A: The table displayed on page 10 of my testimony and marked as Exhibit DL-06 assembles the publicly available data regarding pilot income, medical insurance benefits and pension benefits for 14 pilot groups across the United States. The list includes representation from all three coasts in the continental U.S.: the West Coast, Gulf Coast and East Coast. The table shows 12 lines of data, but actually covers 14 pilot groups because line 11 entitled "Great Lakes Pilots" includes three pilot groups serving the Great Lakes where the U.S. Coast Guard establishes the pilotage rates annually and utilizes a uniform approach to pilot income and benefits for all pilots serving that geographic area. The table therefore lists 12 groups, shows the number of pilots in each group (with a consolidated number for the three Great Lakes pilot groups), the date or dates

1 of the rate order, audit or public disclosure of pilot income and benefits for each group, the net  
2 income reported in the year of the public disclosure, a projected level of income as of January  
3 2023 for each group, whether medical insurance benefits are funded in the tariff or not, the  
4 nature of the pension for each pilot group (annual accrual rate per year of service or another  
5 pension type), the source of funding for the pilot group pension and the nature of any cost-of-  
6 living adjustment to the tariff funding the pilotage system for that group.

7  
8 **Q: In an overview fashion, please describe what the table shows regarding net pilot**  
9 **income across the 12 pilot groups.**

10  
11 A: From a top level view, the table shows five pilot groups with projected 2023 net incomes  
12 in the mid-\$500,000 range to the low \$600,000 range. These five groups are on the Gulf and East  
13 coasts. Below this first grouping are another five pilot groups with 2023 net incomes projected  
14 within the high \$400,000 range to the low \$500,000 range. These five groups are all on the West  
15 Coast including San Francisco, two pilot groups on the Columbia River, LA Harbor and Grays  
16 Harbor. At the bottom, the Coast Guard-regulated Great Lakes Pilots and Puget Sound Pilots are  
17 in the low \$400,000 range in projected 2023 net income. PSP's UTC-approved DNI for the  
18 second tariff year, which ends January 25, 2023, is \$410,075. If that figure is projected as  
19 continuing into 2023, this places PSP in last position among the 12 pilot groups,  
20 but PSP is not coming close to that net income figure because the tariff is falling substantially  
21 short of generating the funds necessary to pay that level of net income.  
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1 **Q: Please describe the pertinent data regarding pilot group net income and benefits in**  
2 **a manner that ties the information displayed on the table to the supporting publicly**  
3 **available exhibits from which the data in the table is drawn.**

4 **A:** For each of the 12 pilot groups listed on the table, I will describe the source of the income  
5 and benefits data and any other pertinent information regarding that group's projected net  
6 income, treatment of medical insurance, pension benefits and annual COLA.

7 **Crescent River Port Pilots.** In what is the most recent publicly issued rate order in the  
8 U.S., the Louisiana Pilotage Fee Commission approved a level of target net income for the  
9 Crescent River Port Pilots of \$586,019 as of December 1, 2021. A copy is Exhibit DL-07. The  
10 order also established a cost-of-living adjustment (“COLA”) tied to the five-year rolling average  
11 of the CPI for the U.S. South. Medical insurance benefits are funded in the tariff and this group's  
12 pension benefits accrue at an annual rate of 2.5% of a working pilot’s net income up to a cap of  
13 50% of those earnings.  
14

15 **Port Everglades Pilots.** Exhibit DL-08 is a copy of the rate order establishing target net  
16 income for the Port Everglades Pilots Association by the Florida Board of Pilot Commissioners  
17 on January 22, 2019. This order established target net income for the Port Everglades Pilots at  
18 \$549,998, which was actually the result of a negotiated settlement involving the Port Everglades  
19 Pilots Association and the Florida Caribbean-Cruise Association. In 2019, the Board's Pilotage  
20 Rates Review Committee found that "nationwide average compensation for pilots was  
21 somewhere between 500,000 and \$550,000 in 2017, such are only averages." The rate order  
22 makes clear that medical and pension benefits are funded in the tariff and established an annual  
23 COLA, specifically 2.5% for the first five years following the effective date of the order and  
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2.0% for the following five years. Those specific COLAs were used to calculate target net  
1 income for this pilot group as of the effective date of their next COLA, January 22, 2023.

2  
3 **New Orleans Baton Rouge Pilots Association (NOBRA)**. In a 2021 filing with the  
4 Louisiana Pilotage Fee Commission, the New Orleans Baton Rouge Pilots Association  
5 (“NOBRA”) reported net income for 2020 of \$565,518. A copy is Exhibit DL-09. Because 2020  
6 was a year in which vessel traffic calling U.S. ports was negatively impacted by Covid-19, that  
7 net income figure was increased by 2.5% per year for 2021 and 2022, which generates an  
8 estimated net income in 2023 of \$594,147. For the NOBRA pilots, like all Louisiana pilot  
9 groups, medical benefits are funded through the tariff and annual pension accruals are identical  
10 to those of the Crescent River Port Pilots, 2% per year subject to a 50% cap.

11  
12 **Lake Charles Pilots**. Exhibit DL-10 is the filing by this pilot group with the Louisiana  
13 Pilotage Fee Commission in (“LPFC”) 2021 reporting on total pilot income earned in 2020.  
14 There are 17 licensed pilots in the Lake Charles Pilots. Dividing the total pilot income figure on  
15 page 22 of the exhibit by 17 generates a net income number per pilot of \$979,445. All Louisiana  
16 pilot groups have their medical insurance benefits funded by the tariff. With respect to pension  
17 benefits, the Lake Charles Pilots are unique in Louisiana in that this group has no established  
18 group-wide pension plan. Instead, pilots are responsible for funding their own pensions. As to  
19 the annual COLA, the LPFC established a precedent on this issue in a December 2021 rate order  
20 involving the Crescent River Port Pilots, which is to utilize a five-year rolling average of the  
21 consumer price index for the US South.

22  
23 **Associated Branch Pilots**. This is the Louisiana pilot group providing pilotage service at  
24 the mouth of the Mississippi River. In a 2021 filing with the LPFC regarding pilot earnings in  
25 2020, per pilot earnings were \$521,232. A copy is Exhibit DL-11. Again, it is reasonable to  
26

1 assume that these were lower than would have been experienced but for the effects of Covid-19  
2 on vessel traffic. For purposes of the table, similar to the approach used for the NOBRA  
3 pilots, the reported 2020 net income was increased by 2.5% per year for 2021 and 2022. This  
4 generated a projected 2023 net income figure of \$547,619. This group has the same medical and  
5 pension benefits as the other two Louisiana pilot groups on the Mississippi River, medical  
6 insurance benefits are funded by the tariff and the pension accrual rate is 2% per year subject to a  
7 50% cap.

8 **San Francisco Bar Pilots.** As described in the testimony of SFBP Business Director  
9 Captain Anne McIntyre, the San Francisco Bar pilotage ground has been in a state of "regulatory  
10 lag" for 20 years because the California legislature has failed to act on rate recommendations  
11 from the Board of Pilot Commissioners. As a result, SFBP's net income has dropped  
12 significantly in the last four years, moving from \$520,250 in 2018 to \$499,415 in 2019, \$428,539  
13 in 2020 and \$328,154 in 2021. Copies of the 1029 and 2021 audits are Exhibits DL-12 and DL-  
14 13. Due to the uncertainty over potential legislation to reform pilotage rate-setting in California  
15 and to provide new funding on an emergency basis, an average of SFBP's actual net income over  
16 the last four years was used to derive a projected net income for 2023. A review of the SFBP  
17 audits shows that medical insurance benefits are not funded by the tariff. However, SFBP has a  
18 relatively generous pension that is statutory with annual accruals of 1.84% funded by a  
19 statutorily-mandated surcharge in the tariff.

22 **Columbia River Bar Pilots.** In a June 1, 2021 Final Order, the Oregon Board Maritime  
23 Pilots approved a rate increase for the Columbia River Bar pilotage ground that the OBMP in a  
24 subsequent rate order characterized as providing Bar Pilots with a 2021 target net income of  
25 \$445,555. A copy is Exhibit DL-14. This figure was subject to a 3.68% COLA adjustment on  
26

1 September 1, 2021 and is projected to be adjusted again by a 9.0% COLA as of September 1,  
2 2022. This generates a projected 2023 net income of \$503,527. Each licensed Bar Pilot also  
3 receives funds generated by the tariff designed to enable the individual pilot to fund a retirement  
4 that is equivalent to 1.25% per year of service times net income at the end of their career.  
5 Medical insurance benefits are fully funded in the tariff.

6 **Columbia River Pilots.** In an August 1, 2021 Final Order, the OBMP approved for the  
7 Columbia River Pilots the same \$445,555 in target net income approved for the Columbia River  
8 Bar Pilots. A copy is Exhibit DL-15. This level of net income was acknowledged in a  
9 subsequent rate order. Exhibit DL-16. The COLA adjustments described above for the Bar  
10 Pilots also apply to the Columbia River Pilots, generating a projected target net income for 2023  
11 of \$503,527. The medical insurance and pension benefits are also the same.  
12

13 **Grays Harbor Pilots.** This is a small pilot group whose members are employees of the  
14 Port of Grays Harbor. The base compensation for Grays Harbor pilots was increased by 21% in  
15 2022 from \$280,000 to \$350,000. The new 2022 contract, which is Exhibit DL-22, specifies a  
16 3% COLA for 2023 and 2024 and then increases to 5% for each of the next three years. In  
17 addition to the base salary of \$350,000, Grays Harbor pilots receive vacation pay, incremental  
18 duty pay and gainsharing pay as shown in Exhibit DL-23. In 2020, the last year in which those  
19 categories of pay were publicly available, the average per pilot was \$137,259. To derive the total  
20 net income for Grays Harbor Pilots as of January 2023, I adjusted the base compensation by the  
21 3% COLA to \$360,500 and added the average of the other income categories from 2020 for a  
22 total of \$497,759.  
23

24 **Los Angeles Port Pilots Association.** The members of this pilot group are employees of  
25 the city of Los Angeles. Under a contract with the city, these pilots have a minimum annual  
26

1 salary of \$344,675 with the opportunity for additional income through callbacks and overtime. In  
2 deriving their net income for 2019, an average was used of the publicly reported income paid to  
3 that group of 10 pilots with the highest degree of licensure, Port Pilot II. Exhibits DL-17, DL-18  
4 and DL-19. Using the same methodology described above for the NOBRA, Lake Charles and  
5 Associated Branch Pilots, I increased the 2019 income level of \$434,712 by 2.5% for 2021 and  
6 2022 (skipping 2020 due to Covid-19 traffic impacts), which generates a projected 2023 net  
7 income of \$456,719.

8 **Great Lakes Pilots.** In a filing in the Federal Register dated March 30, 2022, the U.S.  
9 Coast Guard established target net income for the three groups of Great Lakes Pilots in 2022 of  
10 \$399,266. A copy is Exhibit DL-20. In generating that figure, the Coast Guard utilized a cost-of-  
11 living adjustment for 2021 linked to the PCE median inflation rate maintained by the Federal  
12 Reserve Board. For 2021, that rate was 2.2%. To derive the 2023 target net income, I estimated  
13 that the PCE median inflation rate will be 5%, a figure that can be refined later in this proceeding  
14 with more months of data from that index. Unlike almost all state-licensed pilot groups, medical  
15 insurance benefits are not funded by the tariff funding the Great Lakes pilotage system nor is  
16 there any established pension program funded by the tariff.

17  
18 **Puget Sound Pilots.** As set out in the testimony of PSP president Captain Ivan Carlson,  
19 while the UTC approved a level of distributable net income or DNI effective for the year  
20 beginning January 25, 2021 of \$400,855 and for the following year, a level increased by 2.3% to  
21 \$410,075, members of PSP have fallen substantially short of those figures in 2021 and projected  
22 for 2022. With the outcome of this rate proceeding uncertain, the table shows approved DNI of  
23 \$410,075 as the approved level of DNI beginning as of January 2023. The actual PSP net  
24 incomes for 2020 and 2021 are set out in the PSP 2021 audit. Exhibit DL-21.  
25  
26

1 **Q: Did you analyze pay differentials between the Seattle/Tacoma Puget Sound region**  
2 **and the locations of the 11 other pilot groups listed on the Pilot Group Income and Benefits**  
3 **table?**

4 A: Yes. I used data from Salary.com to adjust the projected 2023 net income levels for all  
5 pilot groups to account for the pay differential between each of those locations and the Seattle  
6 metropolitan area. I consider Salary.com to be the highest-quality, most reliable source for this  
7 information. Founded in 1999, it is the oldest, most widely used and most highly regarded  
8 compensation survey aggregator. They purchase or subscribe to a large collection of  
9 professionally-produced compensation surveys of employers from reliable publishers throughout  
10 the country and aggregate the information from all into a comprehensive integrated massive  
11 database through which subscribers can perform analysis of hundreds of job titles for locations,  
12 industries, size groups and occupational specialties across the nation. This methodology is far  
13 preferable to using results reported from so-called “crowd-sourced” data, where pay information  
14 is submitted by individuals to popular websites such as PayScale, LinkedIn, and Glassdoor.  
15 Employer-submitted data is subject to standards of accuracy, veracity, verification, quality  
16 control and scrutiny that are unachievable with crowd-sourced data. The table on the next page  
17 summarizes pay differentials between the various pilot group locations and the Seattle  
18 metropolitan area as reported by Salary.com as of June, 2022. For example, to accurately  
19 express a pay amount reported for Portland, OR as an equivalent amount in Seattle, the amount  
20 reported is increased by 5.3%. Re-expressing pay amounts in this way ensures that the the final  
21 rate for Seattle properly aligns with and is equivalent to the nationwide average pay of the pilot  
22 groups in the sample.  
23  
24  
25  
26

**PAY DIFFERENTIALS FROM LOCATION TO SEATTLE**

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

9 **Q: Did you analyze the projected 2023 net income data for the 11 pilot groups other**  
10 **than Puget Sound Pilots to develop a recommended level of distributable net income to PSP**  
11 **pilots based upon the median net income for the 11 other pilot groups for which publicly**  
12 **verifiable income data is available?**

14 **A:** Yes. The table on the next page lists those 11 groups in descending order of net income  
15 level, shows the projected 2023 pilot net income for each group, shows the location adjustment  
16 tied to pay differential and generates a median level of pilot net income for 2023 of \$543,055. In  
17 my opinion, this is the minimal level of income that the UTC should approve as DNI for the  
18 Puget Sound Pilots if PSP is to be nationally competitive in competing for top-flight mariner  
19 recruits to become pilot trainees in the Puget Sound Pilotage District.

	Pilot Group	Projected 2023 Net Income	Location Adjustment to Seattle Metro	Adjusted Projected 2023 Net Income
1	1 Crescent River Port Pilots' Association	621,693	10.5%	686,971
2	2 Port Everglades Pilots' Association	607,095	12.3%	681,768
3	3 Lake Charles Pilots	550,000	20.7%	663,850
4	4 New Orleans Baton Rouge Steamship Pilots Association (NOBRA)	594,127	10.5%	656,510
5	5 Associated Branch Pilots/BAR	547,619	10.5%	605,119
6	6 Pilotage Division of the Port of Grays Harbor	497,759	9.1%	543,055
7	7 Columbia River Pilots	503,055	6.3%	534,747
8	8 Columbia River Bar Pilots	503,055	5.3%	529,717
9	9 Great Lakes Pilots Associations	419,229	8.4%	454,444
10	10 Los Angeles Pilot Service	456,719	-3.3%	441,647
11	11 San Francisco Bar Pilots	443,923	-12.5%	388,433
12	<b>50th Percentile (Median)</b>	<b>503,055</b>	<b>8.0%</b>	<b>543,055</b>

9 **Q: Please explain why you recommend use of the median net income figure of \$543,055.**

10 A: Compensation professionals have observed for decades that cash compensation data for  
11 jobs tends to be skewed to the high end. When looking at a sample of data collected for a job, it  
12 typically exhibits a high-end tail, often with major outliers that are very highly paid. In such  
13 cases, the median, which marks the amount where half of observations are above and half are  
14 below, is considered a better representation of the middle or center of the distribution. The  
15 alternative, the arithmetic mean, which is the sum of all observations divided by the number of  
16 observations, is affected by the outliers and thereby distorted, often greatly overstating what  
17 would be considered the middle or the “average.” Therefore, the compensation profession has  
18 generally adopted use of the median as best practice when representing the middle of a  
19 compensation market for a particular job. I have followed this standard in analyzing the data  
20 from pilot groups. It is noted that there is indeed positive skewing in the pilot group data, where  
21 the median net income is \$543,055 as noted in the table; whereas, the arithmetic mean is  
22 \$562,387.  
23  
24  
25  
26

1 **Q: What is your opinion regarding the level of net income or DNI that is necessary for**  
2 **PSP to be competitive nationally in attracting a fair share of the best pilot trainee**  
3 **candidates in the United States?**

4 A: In my opinion, PSP must offer net income levels comparable to the premier U.S. pilot  
5 groups as listed in the table above. Analysis performed to the highest standards prescribed by  
6 the compensation profession indicates this falls within a range of \$540,000-\$545,000. Failure to  
7 match DNI to competitively-aligned net income will, in my opinion, create undue and  
8 undesirable risk to PSP's ability to attract a share of the best pilot trainee candidates in the U.S.  
9 and achieve the workforce diversity needed for success. This is especially so considering the  
10 significant cost-of-living difference between PSP and the pilot groups in the Midwest and U.S.  
11 South where the cost of living is significantly lower than that of the Seattle/Tacoma area. As  
12 described earlier, this situation drives significant observed positive pay differentials across  
13 between the Puget Sound region and most other areas of the country. To establish pay rates that  
14 are competitively aligned and follow both common and best practices, pay rates for PSP pilots  
15 should be established with full consideration of the Seattle area's geographic pay differentials  
16 from where comparable pilot groups are located.

17  
18  
19 **Q: In this rate case, the Puget Sound Pilots are requesting that the UTC approve an**  
20 **annual cost-of-living adjustment to the tariff to account for the effect of inflation on**  
21 **distributable net income. What is your opinion regarding this request on the part of PSP?**

22 A: I consider the request to be both reasonable and appropriate, particularly if there is  
23 significant potential for a lengthy period of time between rate cases before the UTC. With  
24 respect to a specific cost-of-living adjustment, I recommend use of the U.S. Bureau of Labor  
25  
26

1 Statistics' Consumer Price Index for All Urban Consumers (CPI-U) for the Seattle-Tacoma-  
2 Bellevue metropolitan area. This readily available index is updated on a bi-monthly basis.

3 **Q: Have you had a chance to review the memorandum summarizing the prevailing use**  
4 **by the vast majority of pilotage grounds in the United States of annual cost-of-living**  
5 **adjustments to the tariffs supporting those pilotage grounds, a copy which is Exhibit DL-**  
6 **24?**

7 A: Yes. This information supports approval of a cost-of-living adjustment by the UTC for  
8 the PSP tariff. It documents that 19 of the 24 maritime states with pilotage systems (this includes  
9 the eight states that are part of the Great Lakes pilotage system administered by the US Coast  
10 Guard) utilize COLAs.

11 **Q: Have you had the opportunity to review the testimony of PSP president Captain**  
12 **Ivan Carlson, APA Executive Director and General Counsel Clay Diamond, PSP Executive**  
13 **Director Charlie Costanzo, Captain Sandy Bendixen, Captain Deb Dempsey and Chief**  
14 **Mate Alysia Johnson regarding the importance of diversity within a pilot group in terms of**  
15 **experience within the U.S. merchant marine as well as the representation within the pilot**  
16 **corps of both women and minorities?**

17 A: Yes. While I do not have significant experience with the maritime industry, it is my  
18 observation doing work on behalf of management for a wide range of for-profit and nonprofit  
19 enterprises in the Pacific Northwest and throughout the U.S. that diversity of background in  
20 corporate board rooms and executive leadership teams increases the power and quality of  
21 complex decision-making made by those in high-impact roles. In my opinion, diversity of  
22 maritime experience as well as gender and minority status within a pilot group would enhance  
23 the quality of the decision-making made by that group.  
24  
25  
26

1 **Q: Are you aware of any evidence to support your opinion that increased diversity**  
2 **within a business organization enhances the quality of its decision-making?**  
3

4 A: Yes. There is a large, very credible, highly convincing and ever-growing body of  
5 rigorously-developed research and evidence that diversity and inclusion have dramatic positive  
6 impact on organization success. For example:

7 **Improved Bottom Line**

8 Diversity improves profitability. [Researchers at McKinsey & Company](#) discovered that  
9 organizations in the top quartile for diversity on their executive teams outperformed their  
10 peers by 25%. McKinsey found that the greater the diversity, the greater the bump in  
11 profitability. In fact, a performance gap of 48% separates the most diverse organizations  
12 from the least diverse.

12 **Better Investments**

13 Research from [Harvard Business School](#) revealed that diversity improves investment  
14 profitability in venture capital companies. Hiring 10% more women partners led to a  
15 1.5% improvement in investment profitability. Diverse employees also better prepare  
16 their organizations for uncertain competitive markets.

16 **Greater Innovation**

17 According to a [Deloitte article](#), diversity enhances innovation by 20% and reduces risks  
18 by 30%. In addition, diverse organizations execute their initiatives with great skill and  
19 speed since an inclusive culture boosts employee engagement. Research showed that the  
20 key differentiator was inclusive leadership at all corporate levels.

20 **Stronger Talent Acquisition**

21 By the year 2045, [experts project](#) that people of color will constitute the majority of the  
22 U.S. population. This demographic shift means that maintaining a sufficient workforce  
23 requires recruiting a diverse team. Inclusive, culturally intelligent leadership can draw a  
24 broader set of applicants.

24 **More Varied Perspectives**

25 Decision-making drives 95% of business performance and 50% of employee  
26 engagement, [according to one study](#). Diversity and inclusion help organizations consider  
multiple perspectives when making decisions. The study also reveals that diverse teams

1           make better decisions 87% of the time. Age, gender, and geographic diversity each  
2           contribute to decisions that improve business performance.

3           It is my deeply-held belief that future success and even survival for major pilot groups like PSP,  
4           as for any type of organization, will hinge on ability to attract, retain and effectively deploy a  
5           diverse, highly inclusive workforce.

6           **Q:     From what you've learned in this assignment, what is your opinion regarding the**  
7           **nature of the applicant pool for trainee pilot positions with the Puget Sound Pilots?**

8           A:     Base on my review of other testimony and my own experience as an advisor in the field  
9           of compensation, it is my opinion that PSP competes within a national pool for the best pilot  
10          trainee candidates for the Puget Sound Pilotage District. While a share of the top trainee  
11          candidates comes from the Pacific Northwest region, including the towboat industry,  
12          Washington ferry system and other merchant mariners in the Puget Sound area, there is no  
13          question that the graduates of the seven maritime academies across the United States who are  
14          spending 10 to 15 years obtaining a Masters license and the rank of Captain aboard vessels  
15          plying U.S. waters or the oceans of the world constitute a national pool of top-flight candidates  
16          for pilotage positions in the U.S.

17  
18          **Q:     Given the national character of the candidate pool for potential trainees for the**  
19          **Puget Sound Pilotage District, what is your opinion about the nature of the income and**  
20          **benefits package that PSP must be able to offer those prospective trainees?**  
21

22          A:     In my opinion, PSP must have a combination of approved DNI, medical insurance and  
23          pension benefits that is fully competitive with other pilot groups throughout the United States.  
24          Further, if the standard being applied by the UTC is funding a pilotage system in Puget Sound  
25          that achieves the “best achievable protection” against oil spills and other maritime casualties,  
26          then the PSP package of income and benefits must be competitive with the other major pilot

1 groups in the United States. In this testimony, I have concluded this means aligning PSP's 2023  
2 DNI target with the projected 2023 median (50<sup>th</sup> percentile) net income of other major pilot  
3 groups, \$540,000 to \$545,000. It is worthwhile noting that organizations of excellence  
4 sometimes choose to align their compensation more aggressively. Among the dozens of premier  
5 corporations I have served over the years nationwide and in Canada, some have adopted a  
6 compensation philosophy and strategy of aligning pay with a higher market-based target, such as  
7 the 60<sup>th</sup> percentile or 75<sup>th</sup> percentile. This is justified by the stated need to "have a competitive  
8 edge" or "draw from the top half" when it comes to attracting and retaining the caliber of talent  
9 required to fulfill the organization's mission. It can be argued that achieving "best achievable  
10 protection" against maritime casualties in the challenging and vulnerable waters of Puget Sound  
11 calls for such an approach for Puget Sound Pilots. For reference, here are alternative DNI targets  
12 derived from the nationwide analysis of pilot groups for consideration:  
13

14 60<sup>th</sup> percentile: \$602,000 to \$608,000

15 75<sup>th</sup> percentile: \$657,000 to \$663,000

16 **Q: CONCLUSION.**

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

19 **A: Yes.**  
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24  
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26

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