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RE: Stakeholder Meetings to Consider Puget Sound Pilots' Pension Program Transition

Dear Counsel:

On behalf of the Puget Sound Pilots (PSP), the purpose of this letter is to begin the process of initiating stakeholder discussions regarding the development of a plan to transition from PSP's current pay-as-you-go or farebox retirement program to a fully funded, defined benefit retirement plan and to implement full accrual accounting for retirement expenses. To facilitate this transition, the Washington Utilities and Transportation Commission in its November 25, 2020 Order 09 directed PSP to conduct a number of workshops addressing these issues prior to the filing of PSP's next general rate case.

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Over the last several months, PSP has worked closely with a highly qualified actuary to develop the information necessary for meaningful stakeholder participation in these workshops. Specifically, after providing the actuary with the census data for all current PSP retirees and working pilots (date of birth, date of hire and date of retirement), actuary Christopher "Tiff" Wood with the highly regarded actuarial firm Milliman was asked to prepare a 50-year projection of the annual cost of three scenarios:

1. Continue the current pay-as-you-go pension program;
2. Continue to pay existing retirees on a pay-as-you-go basis, but transition the retirement benefits of all current working pilots to a funded defined benefit plan covering both past and future pension benefit accruals; and
3. Continue to pay both existing retirees and working PSP pilots past pension benefit accruals on a pay-as-you-go basis, but transition the future pension benefit accruals of working PSP pilots to a funded defined benefit plan.

The three 50-year cost projections begin on July 1, 2022 and assume that the funded number of PSP working pilots is 52, that the retirement base against which the annual accrual percentage of 1.5% per year is applied to is \$393,790 (which is the average of the last three years of PSP pilot actual net income or distributable net income approved by the WUTC), that pilot income levels increase at a rate of 2% per year and that financial returns on invested funds average 5% net of expenses.

These projections show that, over 50 years, the pay-as-you-go pension program will cost approximately \$472 million, that the continuation of the pay-as-you-go system for retirees only as of July 1, 2022 and funding the pension benefits of all working pilots (both past and future accruals) will cost \$337 million and that continued funding of both existing retirees and past pension accruals for working pilots as of July 1, 2022 on a pay-as-you-go basis and then funding future pension accruals for working pilots in a funded defined benefit plan will cost \$354 million.

From PSP's perspective, two observations are worth making at this stage. First, from the standpoint of ratepayers, steamship companies would achieve significant savings if there were a funded transition from the pay-as-you-go pension system to a defined benefit plan. If the funding of the defined benefit plan covers both past service accruals and future accruals for working pilots, the savings over 50 years is \$135 million. If the transition to a defined benefit plan covers only future accruals for the existing pilot corps, the savings is approximately \$117 million. Second, with either transition, there is an initial period where rates are higher than the comparable pay-as-you-go levels in order to fund accrued pension liabilities over the legally required 15 years, but the annual cost then drops significantly below what will be necessary to

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fund the pay-as-you-go system if the status quo continues. This significantly enhances rate stability over the long term to the benefit of steamship company ratepayers.

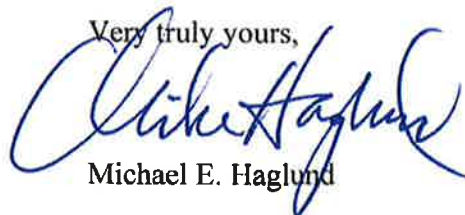
We recognize that studying the potential to transition the PSP pay-as-you-go pension system to a defined benefit plan is complicated and requires a high level of transparency to facilitate meaningful discussions between the stakeholders. To that end, we enclose the census data provided to the PSP actuary and a copy of the PSP Pension Plan. Our actuary is double-checking each of the 50-year cost projections and preparing a detailed description of the actuarial assumptions underlying those projections. We anticipate sending those materials out early next week. Recognizing that one or more stakeholders may wish to engage their own actuary to review the information and develop their own projections, we are scheduling the first of the stakeholder meetings for March 2, 2022, which will give all stakeholders over six weeks to examine the enclosed information and to perform their own analyses.

Finally, to facilitate the discussions on March 2, we have asked a very well-regarded Seattle mediator, Lou Peterson of Hillis, Clark, Martin & Peterson P.S., to conduct this stakeholder meeting and not only to preside at any subsequent session, but to attempt to mediate a mutually agreeable resolution of this issue. From the PSP's perspective, stakeholders should know that, provided the benefits that have been promised to retirees and to PSP working pilots from the date that each was licensed by the Washington Board of Pilot Commissioners are not reduced in any way, PSP is open to any one of the three different scenarios presented in the Milliman 50-year cost projections.

We look forward to the potential to resolve the issue of PSP pension funding for the long-term and to your participation in this process on March 2. Throughout the pandemic, all of Mr. Peterson's mediations are being conducted virtually. Each of you will be receiving soon a mediation confirmation letter and materials related to participation via Zoom. Approximately two weeks prior to the mediation session, Mr. Peterson will hold a pre-mediation planning conference. As the party directed to convene this stakeholder session, PSP will absorb the mediator's fee.

If you have any questions, please do not hesitate to call.

Very truly yours,



Michael E. Haglund

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