



Board of Pilotage Commissioners

SEP - 8 2011

RECEIVED

September 8, 2011

Capt. Harry Dudley, Chair
Board of Pilotage Commissioners
2901 Third Ave, Suite 500
Seattle, Washington 98121

ORIGINAL

Re: CR 102 Filing – 2012 Puget Sound District Tariff

Dear Captain Dudley:

The pilots respectfully suggest that the board alter its methodology at this year's tariff hearing. This suggested change would enunciate some of the principles employed by the board in the tariff setting process. This will help put the board firmly in control of the relationship between the tariff and the safe movement of vessels and greatly diminish the contentiousness of the entire tariff setting procedure.

The process suggested by the pilots is a hybrid. It reinstates the advantages of some of the board's earlier tariff methodology while retaining the flexibility of the board's newer more open process. No one advocates a return to the full line-by-line expense approval of past years, but the key to the hybrid approach is that the board would return to its practice of approving certain special itemized expenses to be included in the tariff.

This approach offers a number of advantages:

- It resolves a number of long standing, contentious issues that reappear at every rate hearing. It would foster negotiated presentations;
- It allows the board to set and control the safety agenda through its expense approval process after input from all parties;
- It provides a mechanism for funding major capital expenses that the board determines are in the public interest;
- It restores some semblance of stability to the pilot retirement issue and restores the rights of Grays Harbor retirees to retirement benefits;



- It makes the tariff more flexible and better able to handle expenses that fluctuate significantly from year to year. These expenses include fuel, comp day payouts, pilot training and navigational technology that can vary from year to year by hundreds of thousands of dollars. The tariff should vary with them.

Under this hybrid approach, the majority of the tariff would continue to be set as it has been over the last few years. However, the board would add a new Variable Expense Component (VEC) charge based on specific enumerated expenses. These expenses are those that directly foster the board's mission, vary greatly from year to year, or have special significance for some other reason. These types of expenses are largely beyond the control of the pilots and represent roughly one-third of PSPs total association expenses. They are:

- Pilot continuing education and training;
- Pilot navigational technology equipment;
- Pilot retirement plans for both districts;
- Comp day liability;
- Pilot boat fuel expenses; and
- Annual adjustment for errors in prior year predictions.

We believe this concept will benefit the board, shipping companies, retirees and other stakeholders and look forward to explaining these benefits as we move forward through this year's rate process.

Turning to the specifics for the November 2011 hearing, we expect the overall revenue needs of the tariff to increase 6.8% in 2012. Past board practice would accomplish this by a 6.8% increase to all tariff charges other than transportation.

As an alternative, the pilots suggest employing a Variable Expense Component charge of \$625 to \$700 per assignment (depending upon how it is levied). This charge will generate approximately \$4 million. To the extent the VEC includes the above expenses, the other charges in the tariff can be reduced. If all of the listed expenses are covered by the new charge, the remainder of the tariff could be reduced 5.6%. The new charge combined with the general tariff reduction will raise the same amount of revenue as a 6.8% increase in the overall tariff.

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At the same time the VEC raises the necessary revenue, it provides guidance to stakeholders as to the board's priorities. This guidance will ultimately enhance the predictability of the tariff setting process, reduce its contentiousness and give the board the ability to direct funds to areas which promote its mission.

In the event that the board chooses not to use the VEC mechanism, PSP requests that a 6.8% increase in the tariff be applied to all tariff categories excluding transportation.

It is not necessary to have both a 6.8% increase in the tariff and the VEC. However, so that all options may be considered by the board in November, we request that the CR 102 filing show an across the board increase to all tariff charges except transportation and training, in the amount of 6.8% and the addition of a new Variable Expense Component in the amount of \$700 per assignment. This gives notice that the board will be considering both methods of establishing the tariff and the public can respond accordingly at the hearing.

Also, in following with past practice we request that the BC travel allowance be increased by the CPI.

Specifically, PSP requests that the following language be included in the CR 102 filing for this year's rate hearing:

PSP proposes that the high end of the range of increases is 6.8% applied across-the-board (except for the domestic *Transportation* and *Training Surcharge* categories to which no change is applied) and the creation of a new line item Variable Expense Component in the amount of \$700 per assignment. PSP also proposes that the Transportation Charge portions of the British Columbia Direct Transit Charge be increased by 2%.

Thank you for your consideration.

PUGET SOUND PILOTS



Capt. David A. Sanders
Chair, Rate Committee