

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

**Docket TP-220513**

**REBUTTAL TESTIMONY OF  
MICHAEL J. TITONE  
ON BEHALF OF PUGET SOUND PILOTS**

**MARCH 3, 2023**

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MJT-02	Sample Annual Traffic-Based Tariff Adjustment Spreadsheet	8

**I. IDENTIFICATION OF WITNESS**

1  
2 **Q: Please state your name, position and business address.**

3 A: My name is Michael J. Titone. I am the Financial and Regulatory Affairs Manager for the  
4 Columbia River Bar Pilots. My business address is 100 16th St., Astoria, OR 97103.  
5

6 **II. PURPOSE OF TESTIMONY**

7  
8 **Q: What is the purpose of your testimony?**

9 A: A: My testimony responds to the UTC Staff and PMSA testimony opposing the adoption  
10 of automatic tariff adjusters in this rate case and addresses two topics: (1) the significant benefits  
11 of automatic tariff adjusters in the regulation of pilotage systems; and (2) discussion of how each  
12 of the automatic tariff adjustment mechanisms proposed by the Puget Sound Pilots can be  
13 implemented.  
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16 **A. History Shows Significant Benefits Associated with the Use of Automatic  
17 Tariff Adjusters by Pilotage System Regulators.**

18 **Q: Please explain why you are qualified to discuss the benefits of automatic tariff  
19 adjusters in the regulation of pilotage systems.**

20 A: My work history makes me uniquely qualified to testify regarding automatic tariff  
21 adjusters for pilotage tariffs because I have served for over 25 years in positions as a top  
22 executive both for trade associations representing maritime shipping interests and for a pilot  
23 group providing services to oceangoing vessels.  
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1 Prior to joining the Columbia River Bar Pilots in 2014, I was the Executive Director of the  
2 Mississippi River Maritime Association for 13 years from 1998 until 2011 when I moved to the  
3 Pacific Northwest to become the Executive Director of the Columbia River Steamship Operators  
4 Association (CRSOA). In these positions, I was actively involved in pilotage rate negotiations  
5 with Gulf Coast pilot groups. I also gained significant maritime industry experience as Chief  
6 Financial Officer of the Gulf Services Group for seven years in the 1990s. The Gulf Services  
7 Group included nine corporate entities that provided stevedoring, vessel agent and other logistical  
8 services in the ports of Baton Rouge, New Orleans and Lake Charles.

9  
10 From 2014 through 2019, I served as Chief Financial Officer and Industry Liaison for the  
11 Columbia River Bar Pilots, a position that required significant involvement in all rate negotiations  
12 with the CRSOA, the trade association representing oceangoing vessels calling ports on the  
13 Columbia River. As Financial and Regulatory Affairs Manager for the Columbia River Pilots  
14 since 2019, my involvement in all rate-related matters has continued.

15 I earned a degree in accounting in 1982 from Louisiana State University. For many years,  
16 I was a Certified Public Accountant and Certified Internal Auditor, but both licenses are currently  
17 inactive.

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19  
20 **Q: During your more than 30 years of maritime management experience, were you**  
21 **directly involved in issues related to the setting of pilotage rates for pilotage grounds on the**  
22 **lower Mississippi River and on the Columbia River?**

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24  
25 A: Yes. One of my principal roles in my work both for shipping industry trade associations  
26 and the Columbia River Bar Pilots has been active involvement in pilotage rate negotiations and

1 with the pilot commissions in charge of regulating pilot groups on the lower Mississippi and on  
2 the Columbia River.

3  
4 **Q: Based on that experience, what is your opinion regarding the importance of a**  
5 **pilotage system regulator adopting a set of automatic tariff adjusters that are appropriate to**  
6 **the particular pilotage ground?**

7 A: Provided the pilotage system regulator has addressed the key issues over which a pilot  
8 group and the shipping industry often disagree, such as target net income and the costs of the  
9 transportation infrastructure necessary on a particular pilotage ground, it is my experience and  
10 opinion that properly designed automatic tariff adjusters will minimize the need for contested rate  
11 cases and facilitate a more collaborative working relationship between the shipping industry and  
12 the pilot group that often leads to negotiated settlements that are implemented through stipulations  
13 or very streamlined rate case proceedings.

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16 **Q: Please provide an example.**

17 A: The rate case histories of the Columbia River Bar Pilots and the Columbia River Pilots are  
18 two good examples. During the period of 1999 through 2010, there were hotly contested rate  
19 cases involving the Bar Pilots and the CRSOA because the transformational character of the Bar  
20 Pilots' proposed transition of their transportation system serving the Columbia River Bar pilotage  
21 ground and the authorized number of pilots were such difficult and complicated issues that it took  
22 three contested rate cases over nearly a decade to decide all the key issues. These included  
23 decisions by the Oregon Board Maritime Pilots to significantly increase rates in 1999 following a  
24 two-week contested case hearing to fund a complete overhaul of the transportation system to  
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1 include a dedicated 24/7 helicopter operation in combination with two state-of-the-art high-speed  
2 aluminum, jet-powered pilot boats. In addition, once the helicopter/fast pilot boat system was in  
3 place, contested rate case battles were fought over the level of efficiencies the new and more  
4 expensive transportation system was delivering and how many pilot positions should be  
5 eliminated as a result. Once the OBMP had thoroughly addressed all of these issues in three rate  
6 orders, the pilotage system has enjoyed an era of relative rate peace due, in my opinion, to the  
7 appropriate use of multiple automatic tariff adjusters.

8           A second example where the Oregon Board Maritime Pilots had to make important  
9 decisions where the opposing parties could not reach a settlement agreement involved the  
10 Columbia River Pilots in the mid-1990s and the inability of the stakeholders to work out a deal  
11 regarding funding of that pilot group's pay-as-you-go pension plan in the wake of two Columbia  
12 River pilots breaking away from their former pilot group and establishing a competing  
13 organization, Lewis & Clark Pilotage, which had no obligation to participate in the funding of the  
14 Columbia River Pilots' pay-as-you-go pension plan. As discussed in the testimony of actuary  
15 Christopher Wood, who was a key player in the two proceedings before the Oregon Board of  
16 Maritime pilots that ultimately resolved the pension issues, the Board ultimately had to make key  
17 decisions that then resolved the issue for the long term.

18           In my opinion, both of these examples demonstrate that, where the issues are simply too  
19 complex or difficult to be negotiated between the pilot group and the trade association  
20 representing the shipping industry, the pilotage ground regulator has to make a considered  
21 decision based upon a well-developed evidentiary record. Once that occurs, it is my experience  
22 that the stage is set for a period of relative rate peace provided the pilotage regulator utilizes  
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1 automatic tariff adjusters to modify the tariff to address the economic issues that would otherwise  
2 result in an expensive and time-consuming contested rate case.

3  
4 **B. How to Implement PSP's Proposed Automatic Tariff Adjusters.**

5 **Q: Why do automatic tariff adjusters reduce the need for contested rate cases?**

6 A: Based on my experience, the most important automatic adjuster involves accounting for  
7 inflation. Provided target net income and benefits and the pilot group's regular ongoing expenses  
8 are being funded, there is generally no need for a rate case where the tariff is adjusted annually  
9 utilizing a standard Consumer Price Index for the relevant region that is maintained by the US  
10 Department of Labor. With target net income and expenses adjusted annually for cost-of-living,  
11 there have been pilotage grounds in the United States without contested rate cases for over two  
12 decades. Over the last 15 years, pilotage grounds in Oregon have enjoyed relative rate peace due  
13 to the effect of the cost-of-living annual adjuster as well as other automatic tariff adjusters where  
14 the particular pilotage ground has unique circumstances that warrant a particular type of adjuster.  
15

16  
17 **Q: Please provide an example.**

18 A: The Columbia River Bar Pilotage ground is unique because its transportation system is so  
19 expensive that it accounts for just over 50% of the total tariff revenue requirement. Due to that  
20 high cost, fluctuations in vessel traffic can result in significant fluctuations in pilot income, either  
21 up or down. In order to eliminate those risks, the Bar Pilots and the CRSOA negotiated the terms  
22 of an automatic quarterly traffic adjuster that has been in place for nearly 10 years. This automatic  
23 adjuster increases or decreases the tariff on a quarterly basis in order to ensure that the appropriate  
24 revenue requirement is being collected. This adjuster is fundamentally fair to both industry and  
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1 the pilots because in periods of high traffic there is no windfall to the pilots and in periods of low  
2 traffic the pilots do not have to reach into their own pockets to pay for the highly expensive  
3 transportation system necessary to safely transfer pilots to and from vessels in the Pacific Ocean.  
4

5 **Q: Has the Oregon Board of Maritime Pilots also adopted other automatic adjusters for**  
6 **Oregon pilotage grounds?**

7 A: Yes. Although the number of tariff adjusters varies by pilotage ground, the Oregon Board  
8 Maritime Pilots has in place automatic adjusters to fund pension costs, agency administrative  
9 costs, a fuel surcharge that moves up or down with fuel costs, a transportation surcharge  
10 determined annually through a Transportation Oversight Committee led by a Board public  
11 member with representation from both the pilot group and industry and adjusters to collect the  
12 funds for a pilot group's annual continuing professional development/training costs and pilot boat  
13 mortgage payments.  
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15  
16 **Q: Turning now to a series of questions regarding the specific automatic tariff**  
17 **adjustment mechanisms proposed by the Puget Sound Pilots, please describe how to**  
18 **implement a cost-of-living automatic tariff adjuster.**  
19

20 A: Use of annual cost-of-living adjusters to pilotage tariffs is very common throughout the  
21 United States. PSP proposes that the COLA to be effective on January 1 of each year based upon  
22 the Consumer Price Index for the Seattle/Bellevue area for the 12 months ending September 30 of  
23 the prior year. The application of this adjuster is relatively simple. The UTC need only decide  
24 whether it should apply to all tariff components or not and, if not, which ones.  
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1 **Q: How would the automatic adjuster for a new licensee or a new retiree be**  
2 **implemented?**

3 A: This adjuster, which is now in place for the tariff funding the Crescent River Port Pilots  
4 who serve the lower Mississippi River from inside the bar to New Orleans, requires the pilot  
5 group regulator to derive the target net income or distributable net income for members of the  
6 pilot corps plus associated expenses for benefits, insurances and licenses. With that aggregate  
7 figure, simple math derives the percentage of the revenue requirement associated with each new  
8 licensee or retirement. The regulator can then either make the change to the tariff as PSP proposes  
9 in the quarter following the licensing of a new pilot or the retirement of an existing pilot or make  
10 that adjustment on an annual basis.  
11

12  
13 **Q: Please describe how pension-related automatic adjusters funding pay-as-you-go**  
14 **pension benefits have been implemented by various pilotage regulators.**

15 A: In multiple states with pay-as-you-go pilot pension plans, the common practice is for a  
16 pilot group to generate an annual report based upon the current level of retirees and the level of  
17 their benefits and a projection of new retirements and the associated benefit costs. That report is  
18 used to generate an annual surcharge linked to the traffic assumption underlying the tariff revenue  
19 requirement. Generally, to the extent the surcharge over-collects or under-collects due to  
20 fluctuations in traffic, that overage or underage is accounted for in the following year. Because  
21 this projection requires some time, my recommendation would be for the report to be due by  
22 December 1 in order for the pension surcharge to be in place as of the first of the year.  
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1 **Q: If the Commission decides to transition the PSP pay-as-you-go pension plan to a fully**  
2 **funded defined-benefit plan, how would an automatic adjuster designed to collect the**  
3 **necessary funds for the funded pension plan be implemented?**

4 A: In my opinion, the surcharge designed to fund a transition to a defined benefit plan would  
5 operate in the same fashion as the automatic adjuster that generates the surcharge for the pay-as-  
6 you-go component of a pilot group's pension system. In this instance, the actuary would project  
7 the funded pension costs necessary to meet the 15-year full funding requirement described in the  
8 testimony of PSP's pension attorney Bruce McNeil and actuary Christopher Wood. However, that  
9 report would generate the same deliverable leading to an automatic tariff adjuster to start a  
10 calendar year, namely a report from an actuary projecting the level of funds necessary to meet the  
11 funding requirements of the defined-benefit plan pension.  
12

13  
14 **Q: PSP has also proposed an annual tariff adjuster that addresses fluctuations in vessel**  
15 **traffic. Based on your experience with the quarterly traffic adjuster for the Columbia River**  
16 **Bar pilotage ground, how would this type of tariff adjuster function where PSP proposes**  
17 **that it be implemented annually rather than quarterly?**

18 A: This type of adjuster involves somewhat more math. Implementation of an annual tariff  
19 adjuster based upon traffic requires use of an annual vessel traffic count that is one of the two key  
20 components of the equation driving the revenue requirement. The other consists of the average  
21 tonnage levels for the different categories of tonnage charge in the PSP tariff. The spreadsheet  
22 that is Exh. MJT-02 provides an example of how this adjuster would operate. Please note that this  
23 spreadsheet is for illustration purposes only and does not attempt to use accurate inputs.  
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1 In its decision in this rate case, the Commission should derive all the key inputs for this  
2 automatic adjuster to be implemented. These include DNI, target gross income including  
3 benefits, other major cost categories, assumed traffic and the funds generated from the  
4 combination of tonnage charges by vessel charge categories and service hourly charges. Once  
5 these assumptions are derived, changes in traffic from one year to the next can be used in this type  
6 of spreadsheet to derive how tariff charges linked to this spreadsheet should be increased or  
7 decreased in light of the actual traffic in a calendar year compared to the traffic assumption  
8 underlying the revenue requirement established in this rate case. Based on my discussions with  
9 PSP, given the need to have some time after the end of a particular calendar year to generate the  
10 final traffic statistic, PSP's proposal is to submit the traffic-based adjuster report to the UTC by  
11 January 15 so that it can be implemented effective February 1 of each calendar year. The  
12 approach ties the adjuster to calendar year traffic, which is the metric utilized by pilot groups and  
13 their regulators throughout the United States.  
14

15  
16 **Q: How would the training surcharge of the Board of Pilotage Commissioners operate**  
17 **as an automatic tariff adjuster?**

18  
19 **A:** As I understand the PSP proposal, the UTC is being asked to authorize the BPC to use a  
20 30-day compliance filing to implement a change in the current \$19 per trainee charged for each  
21 pilotage assignment in order to fund the BPC pilot training program. Once the BPC decided how  
22 much the pilot training surcharge needed to increase or decrease, it would be a simple matter of  
23 submitting the 30-day compliance filing which would make that particular surcharge increase or  
24 decrease effective after the 30 days expired.  
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**III. CONCLUSION**

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

A: Yes.