**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND PILOTS,** **Respondent.**	**Docket TP-220513**

REBUTTAL TESTIMONY OF

CHRISTOPHER R. WOOD

ON BEHALF OF PUGET SOUND PILOTS

MARCH 3, 2023

**Haglund Kelley, LLP
2177 SW Broadway
Portland, OR 97201
Tel: (503) 225-0777 / Fax: (503) 225-1257**

TABLE OF CONTENTS

EXHIBIT LIST		
Exhibit No.	**Description**	**Page Referenced**
CRW-07	Oregon Board of Maritime Pilots Order No. 93-4	3
CRW-08	Oregon Board of Maritime Pilots Order No. 95-2	4
CRW-09	PSP Updated 50-Year Cost Projections – Three Plan Scenarios (July 1, 2021 start date)	5
CRW-10	PSP Updated 50-Year Cost Projections – Three Plan Scenarios (January 1, 2024 start date)	6
CRW-11	PSP Updated Census Information	6

I. IDENTIFICATION OF WITNESS

Q: Please state your name and position for the record.

A: My name is Christopher R. Wood and I am a licensed consulting actuary. I retired from Milliman in June 2022, but have continued to work with the Milliman staff in connection with fulfilling my expert witness engagement with the Puget Sound Pilots.

II. PURPOSE OF TESTIMONY

Q: What is the purpose of your testimony?

A: I am offering testimony on the following topics:

1. Providing additional background information regarding the decisions of the Oregon Board of Maritime Pilots in the mid-1990s to transition the pay-as-you-go or farebox pension plans for Oregon pilot groups to fully funded defined contribution pension plans;

2. Rebutting the actuarial concerns or questions raised by PMSA actuary Christopher Noble; and

3. Presenting updated 50-year cost projections using a current pilot census, reflecting all changes to the active pilot and retiree populations used in the initial projections that are known at this time, using a transition date of January 1, 2024 for the commencement of the two defined benefit plans being analyzed, and reflecting the current pilot level of distributable net income

A. History of Decisions Made by the Oregon Board of Maritime Pilots to Transition Pay-As-You Go Pension Plans for Oregon Pilot Groups to a Fully Funded Defined Contribution Plans.

Q: Please describe what event precipitated the involvement of the Oregon Board of Maritime Pilots in a review of the pay-as-you-go pension plans in place for Oregon pilot groups in the 1990s.

A: In 1989, in an unprecedented development, two former presidents of the Columbia River Pilots resigned from that pilot group and entered into an exclusive contract with Peavey Grain Company to provide pilotage services to the busiest grain terminal on the Columbia River in Kalama, Washington. This development grew out of an ILWU strike at this terminal which resulted in the Columbia River Pilots, following a vote of their membership, refusing to cross the picket line and serve ships calling at that terminal. Peavey Grain Company then advertised its willingness to enter into an exclusive long-term pilotage contract with two Columbia River Pilots in order to resolve the loss of pilotage service. In October 1989, two former Columbia River Pilots responded to the newspaper advertisement, negotiated the terms of an exclusive pilotage services agreement for that terminal and began piloting vessels to and from the Kalama terminal. Within 24 hours, the labor strike was resolved. However, the fact that the new pilot group, which incorporated under the name Lewis & Clark Pilotage, Inc., had no legal responsibility to assist in the funding of the pay-as-you-go pension benefits for Columbia River Pilot retirees (who included both owner pilots of Lewis & Clark Pilotage, Inc.) led to very serious concerns by the ports of Portland and Kalama as well as the Columbia River Pilots regarding the long-term economic viability of the pay-as-you-go pension plan for Columbia River Pilot retirees.

Q: How did the Oregon Board of Maritime Pilots become involved?

A: There were two rate proceedings before the Oregon Board of Maritime Pilots related to the unfunded pensions for the Columbia River Pilots and the new breakaway pilot group Lewis & Clark Pilotage, Inc. that generated final rate orders in 1993 and 1995, respectively. In the first case, the Columbia River Pilots and Lewis & Clark Pilotage, Inc. sought 25% increases in all tariff items and an automatically adjusting annual cost-of-living increase pursuant to settlement agreements with the Portland Steamship Operators Association. The Board in Order No. 93-4 issued on March 26, 1993 approved the requested 25% increase in all tariff items and the automatic annual cost-of-living adjustment, but rejected that component of the settlement supported by the Columbia River Pilots, the shipping industry represented by the PSOA and intervener Port of Kalama which would have adopted an automatic rate adjustment mechanism commencing in 1994 to fund pension obligations. The Board ultimately rejected the pension-related automatic rate adjuster clause as well as the proposal of the Columbia River Pilots "to conduct an investigation into the optimal pension system." A copy of Order No. 93-4 is Exh. CRW-07.

However, following a request by the Columbia River Pilots that the Board reconsider its retirement income funding decision, the Board decided to reopen the record for additional evidence which ultimately generated Order No. 95-2 issued on March 20, 1995. I was involved in a process where most of the parties, including the Columbia River Pilots, the Columbia River Steamship Operators Association, the successor to the PSOA and the Ports of Kalama and Portland ultimately reached a stipulation under which the pay-as-you-go pension plan for the Columbia River Pilots would transition to a fully funded defined contribution plan. Lewis & Clark Pilotage was the lone objector to the terms of the stipulation. I served as the actuary for the Ports of Kalama and Portland and the actuarial assumptions that I developed were ultimately agreed upon by all parties.

The Board in Order No. 95-2 recognized that the costs of the farebox or pay-as-you-go pension of the Columbia River Pilots had been funded historically in the tariff, but that it was preferable from a public policy standpoint to transition that unfunded plan to a fully funded pension program for Oregon pilots. This was accomplished in two steps. First, the recognition of farebox expenses for all pilot grounds warranted the adoption of an annual tariff adjuster designed to fund the runout of the fare box pension benefits of existing retirees and those accrued by current licensees up to a future transition date, which was the March 20, 1995 date of the order. In the second step, the cost of the future pension benefit accruals (starting with the transition date) for all current and future licensees was to be funded with annual payments to each pilot that were designed to generate the equivalent of the 1.25% per year pension accrual rate that Columbia River Pilots had been earning under the terms of their unfunded pension plan. In addition, in order to eliminate the windfall to Lewis & Clark Pilotage resulting from that pilot group's lack of liability for pilot pension obligations, the Board ordered that Lewis & Clark Pilotage remit 2.5% of its annual pilotage revenues to the Columbia River Pilots in order to pay their fair share of the runout of the farebox pension obligations of the Columbia River Pilots. A copy of Order No. 95-2 is Exh. CRW-08.

B. Responses to Concerns or Questions Raised by PMSA Actuary Christopher Noble.

Q: Although Mr. Noble generally concurred that the assumptions underlying your 50-year cost projections were reasonable, he raised a question regarding the annual level of investment return employed in the projections Please explain why you consider the investment returns assumption employed to be both reasonable and conservative?

A: In the projections, both original and those now being provided, we made an assumption that the operation of the defined benefit plans would generate no actuarial gains or losses . This approach was adopted in order to streamline the calculation of required contributions under the defined benefit plan options and is equivalent to assuming that actual experience would not differ from the outcomes one would expect based on the actuarial assumptions employed. In the area of investment returns, assuming no gains or losses means that we assumed investment returns would match the discount rates being used to determine plan liabilities. The discount rates mandated by the minimum funding rules are based upon high-quality corporate bond rates in effect as of the valuation date. In my judgment and based upon my experience, I believe that it is reasonable to assume that a professionally managed pension trust would be able to earn a rate of return on plan assets at least equal to the rate of return generated by a portfolio of high quality corporate bonds, thus also making that assumption a conservative one. In the event the UTC approves a transition from PSP's pay-as-you-go pension plan to the Multiple Employer Defined Benefit Pension Plan described in detail by Mr. McNeil, an actuary will be required to prepare an annual report designed to determine the level of pension funding required to meet IRS minimum funding requirements each year. Using a conservative investment return for the projections means that the cost savings projected are similarly conservative.

Q: In response to an inquiry from Mr. Noble, did Milliman prepare projections using the same actuarial assumptions utilized in the 50-year cost projections that are Exh. CRW-05, but showing separate figures for (1) current pilots and retirees, and (2) future licensees to replace retiring pilots?

A: Yes. A copy of that projection is Exh. CRW-09. This exhibit shows the same total costs for each scenario, which are $495.7 million to fund continuation of the pay-as-you-go pension plan for 50 years, $372.9 million to transition all current working pilots and future licensees to a fully funded defined-benefit plan and $402.98 million to transition only the future plan accruals for current working pilots as of a transition date and all future licensees to a fully funded defined-benefit plan.

C. Updated 50-Year Cost Projections Effective January 1, 2024 That Are Scalable to the Commission's Ultimate Decision on Distributable Net Income.

Q: Did you also work with Milliman to prepare a new set of 50-year cost projections with a starting date of January 1, 2024 that utilizes updated PSP retiree and working pilots census data and an updated set of distributable net income figures (2020, 2021 and 2022) to calculate the pensions of those projected to retire over the next 50 years?

A: Yes. Those updated 50-year cost projections are Exh. CRW-10 and the updated census and actuarial assumptions are listed in Exh. CRW-11.

Q: Please describe what your updated 50-year cost projections show in terms of total cost for each of the three scenarios and the savings associated with the transition to either one of the two scenarios where there is a transition of all or part of the existing PSP pay-as-you-go pension plan to a fully funded defined benefit plan.

A: The updated 50-year cost projections show similar results to the original projections. The greater number of Pilots and higher distributable net income caused costs under all three scenarios to increase by 10% to 13%, with relative costs bearing the same relationship as before. In summary, the 50-year total cost under the farebox is now estimated to be $547,402,000, the 50-year total cost under Alternative 1 is $423,370,000, and the 50-year total cost under Alternative 2 is $447,427,000, resulting in potential savings under Alternative 1 of $124 million and savings under Alternative 2 of $100 million.

Q: As you are aware, PSP is requesting a substantial increase in distributable net income in this rate proceeding from the current $410,075 to approximately $543,000. Depending upon what level of distributable net income is ultimately determined by the Commission, is it possible to use the updated 50-year cost projections that have a starting date of January 1, 2024 and incorporates known data regarding PSP retirements in 2023 to project the actual cost of the PSP pension under any one of the three scenarios in the updated 50-year cost projections?

A: The 50-year projections have been developed in order to allow the Puget Sound Pilots and other interested parties to compare the cash requirements over the next 50 years of the current farebox approach and two alternative defined benefit plan approaches to transitioning from a farebox pay-as-you-go funding method to a prefunded qualified pension plan approach. The impact on the projections of a change in Pilot distributable net income that would change the Retirement Base from the $410,075 assumed in the projections would be directly proportionate. In other words, if the estimated 2024 Retirement Base increased by 10% over $410.075, then every projected cost under each alternative funding approach would go up by the same 10%. However, it would not be my position that the 50-year projections can be used to determine actual 2024 funding requirements, as an actuarial valuation specifically for that purpose and conducted in accordance with all applicable Standards of Practice would be required at the point when a decision is made to move forward with one of the defined benefit pension plan alternatives.

Q: With respect to administration of the proposed PSP Multiple Employer Defined Benefit Pension Plan, did you prepare estimates of the potential costs of Pension Benefit Guaranty Corporation, legal costs and actuarial services?

A: Yes. My estimates each of these categories are set out below:

1. PBGC Premiums

PBGC Flat Rate Premium: Based on 56 Year 1 participants, all active, and adding 1 net additional participant each year, and a 2023 rate of $96 per participant that is increased by expected inflation each year. Expected inflation is 5.4% grading down to 2.0% in seven years, 2.0% thereafter.

Total for all 50 Years: $808,000.

PBGC Variable Rate Premium: The maximum it could possibly be is everyone at the per participant cap. The per participant cap assumed to be $700 in 2024, and is increased each year by expected inflation (same as above).

Total for all 50 years: $5,592,000

2. Legal Services

I assumed $55,000 Year 1, $20,000 Year 2, $3,000 Year 3, and indexed the fees after Year 3 using the same inflation assumption as above. This does not include any legal fees for plan changes.

Total for all 50 years: $386,000

3. Actuarial Services

I assumed $75,000 Year 1, $50,000 Year 2, $40,000 Year 3, $40,000 Year 4, and indexed the fees after Year 4 using the same inflation assumption as above.

Total for all 50 years: $4,085,000

Grand Total, PBGC Best Case Outcome (No PBGC Variable Premium Due): $5,279,000

Grand Total, PBGC Worst Case Outcome (Maximum PBGC Variable Premium Due): $10,871,000

With savings of $100 million and $124 million before expenses for the two DB Plan alternatives, both would appear attractive even in a worst case scenario.

Q: What is your understanding regarding how the funding of the runout of the farebox pension costs and the new defined contribution plan were implemented through the tariff by the Oregon Board of Maritime Pilots?

A: It was my understanding that a formula would be utilized to calculate the annual cost of the farebox pension payments for retired Columbia River Pilots on an annual basis and that the Board would establish a specified sum to be added to each Oregon pilot's target net income to enable that pilot to fund his or her own pension. I reviewed the testimony of Michael Titone, who is much more knowledgeable about the tariff formulas used by the Oregon Board of Maritime Pilots. However, the formula that he describes in his testimony as the basis for calculating the annual cost of the farebox pension plan runout for the Columbia River Pilots is consistent with my understanding of what was envisioned in connection with Order No. 95-2.

III. <u>CONCLUSION</u>

Q: Does this conclude your testimony?

A: Yes.