EXH. 12

Western States Petroleum Association

Western States Petroleum Association
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WSPA Testimony – Board of Pilot Commissioners Hearing
4/1/2015

My name is Guy Bjerke and I represent the Western States Petroleum Association (WSPA). WSPA is a non-profit trade association representing companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in California and four other western states.

WSPA appreciates the opportunity to provide public comments regarding pilotage rates. Before providing substantive comments, we would first note that there appears to be a lack of transparency with regards to this issue, resulting in difficulty obtaining public information necessary to fully respond to the Petition. For example, there should be evidence and testimony on pilot work load and ship moves per pilot on an annual basis, rather than the summary information provided. If ship traffic is decreased, one should consider the number of pilots required to support the activity. Our analysis indicates reducing the number of pilots even slightly would have the equivalent impact of a rate increase as requested in the Petition.

Additionally, evidence and testimony on the impact and increase of the pilot pension surcharge would be helpful, specifically how the current pilot pension plan compares to other comparable pilot organizations. In any pilot income discussion this unfunded pension liability and comparison to other pilot organizations must be part of the discussion for pilot compensation.

WSPA supports the San Francisco Bar Pilots and understands the importance of their services in ensuring vessel safety. However, based on the facts presented to the Board, we cannot support the Petition for an increase in Pilotage rates.

Turning to our substantive comments on the Petition for a rate increase:

Comment 1
In 2014, individual pilots earned a record $4,738 per move. Pilotage revenues earned per vessel move have increased continuously every year for the past 20 years. This steady increase continued without any rate increase from 2006-2014 – from $4,004 per vessel in 2006 to $4,738 per vessel in 2014. One reason for this is the 1190 tariff formula ties rates directly to the independent variables vessel gross registered tonnage (GRT) and vessel draft. Increases in vessel size are directly tied to an increase in average pilot revenue per vessel. This has caused the income per vessel movement to increase.

Comment 2
While the income per vessel movement has increased, there has also been a decrease in individual vessel moves per pilot. As a result, overall revenue has increased and the average workload per pilot has decreased. It would, however, be incorrect to equate the lack of a rate increase with a lack of income increases. Pilots only earn revenues on a per move basis, and the

rate only affects what a ship pays on a per move basis. As a result, to determine a pilot's rate of income, the focus of the Board should be centered on the income generated on a "per move" basis.

From 2006 to 2014, the San Francisco Bar Pilot's total Operating Income per move has increased 5.5%, from $3,006 in 2006 to $3,172 in 2014. Simultaneously, income per move has steadily increased along with ship sizes since 2006, even while total moves have declined from the peak in 2006.

To isolate the rate by which income is earned, it is critical to compare pilot incomes from year-to-year on a standardized basis. Only by standardizing pilot income from 2006 and 2014 can a direct comparison be made between this time period. Simply put, this measurement eliminates the variable of total ship moves. In 2014, an individual pilot moved an average of 143 ships, while in 2006 each pilot averaged 164 moves. This decrease in ship movements per pilot is critical in evaluating the current revenue structure. There is now 15% less work to go around, which will obviously result in lower income per pilot if the number of pilots available to work remains constant. However, upon isolating the ship movement variable, it turns out that, in 2006, while a pilot in 2006 was working harder (more vessel movements), that same pilot was earning less per job. In 2006, each ship movement earned a pilot $3,006, while in 2014 each move earned a pilot $3,172 per move. That is an increase in average net income of 5.5% per move. This average net income was realized without any change to the rate structure.

Comment 3

In addition to the pilotage fees, vessels pay numerous surcharges. While they are all set independently of the rates which are subject to this petition, these surcharges are relevant to rate setting. Unfortunately, the Petition fails to address the cumulative effect of a potential rate increase on the various surcharges. These cumulative effects should be examined by the Board when considering the Petition to increase pilotage rates.

Some surcharges, like the Pilot Boat and Navigation Technology surcharges, specifically reimburse pilot expenses, which indirectly boost pilot average net income. Others, like the Board Operations Surcharge and Pilot Pension Surcharge, are directly related to pilot revenues, and are of particular concern to industry. The Board Operations Surcharge is a straight percentage of total pilot revenues. Thus, as pilotage revenues increase so does the Board Operations Surcharge. Additionally, the Petition appears to gloss over the fact that pilots are covered by this industry-funded Pilot Pension Surcharge, which currently stands at 19% for each vessel move, and the Board should consider the value of the pension as an integral part of the individual pilot earnings.

The Pilot Pension Surcharge is imposed on vessels in order to pay the entirety of the unfunded defined benefit pension benefits of pilot retirees. Because these benefits are based on average net incomes of pilots, and the liabilities increase when new pilots retire, higher rates will necessarily further exacerbate the existing unfunded liability associated with this Pension Surcharge, which is substantial. Because of these surcharges, the effects of any rate increase are multiplied and result in even greater costs to vessels hiring pilots.

Comment 4

With respect to pilot revenue vs. expense ratio, revenue continues to increase, however the historical average expenses over the last 25 years are essentially what they were in 2014. The average ratio of pilot expense to pilotage fee revenues has been 33.5% over the last 25 years. 2014's operating expense ratio is nearly the same average, at 33.21%. Clearly 2006 was an unusual year as that year had the lowest ratio of expense to pilotage fee income of any other year over the past 25 years.

In summary, WSPA strongly supports the professionalism of the San Francisco Bar Pilots and believes that our pilots are among the best in the nation. We recognize the critical importance and necessity of their services in ensuring vessel safety. However, based on the facts presented to the Board, we cannot support the Petition for an increase in Pilotage rates.

WSPA and its member companies greatly appreciate the opportunity to provide comments to your Commission today.