

Oregon and Washington Examples of Formulaic Rate Calculations

PMSA and SFBP offered at the last meeting of the BOPC Ad Hoc Committee on Ratesetting to meet in the intervening weeks to outline our understanding of the formulaic rate calculation methodologies used in the states of Oregon and Washington. It is our intention to bring some foundational consensus to the discussion of what components of a rate decision should be included in a working formula based on the Oregon and Washington methodologies.

Statutes and Regulations Require Consideration of Factors, But Do Not Proscribe a Formula

In neither Oregon nor Washington is the working formula enunciated in statute, rather the goals of ratesetting are couched in traditional and broad terms applicable to ratemaking statutes. In Oregon, ORS 776.115(5)(a) requires that pilotage rates be fixed as “reasonable and just.” (ATTACHED) In Washington, RCW 81.116.020(3) the tariff rates that are “fair, just, reasonable, and sufficient for the provision of pilotage services.” (ATTACHED) These are broad terms of art of ratemaking authority understood to both the Oregon Board of Maritime Pilots (a component agency of the Oregon Public Utility Commission) and the Washington Utility and Transportation Commission.

In addition, both Oregon and Washington provide for pilotage specific factors to be considered over and above these broad terms of application of rates. In the Oregon statute, ORS 776.115(5)(b) provides for a list of factors to be given “due regard” including: “(A) The length and net tonnage of the vessels to be piloted. (B) The difficulty and inconvenience of the particular service and the skill required to render it. (C) The supply of and demand for pilotage services. (D) The public interest in maintaining efficient, economical and reliable pilotage service. (E) Other factors relevant to the determination of reasonable and just rates.” And, as implemented by regulation, OAR 856-030-0000 (ATTACHED) lists a number of specific factors to consider when determining pilot compensation and expense factors, which run the gamut from vessel traffic and assignment levels to pilotage expenses to comparison of pilot incomes.

In Washington there is no further statutory elaboration on specific factors of consideration, but as implemented by regulation, WAC 480-07-525 (ATTACHED) provides that additional information must be submitted with respect to various additional factors including the number of licensed pilots and vessel traffic and assignment levels. This regulation also requires the submission by a petitioner of a specific “[c]omputation of revenue requirement for the rate effective year.”

Under both processes, the petitioning party is the movant and is responsible for carrying a burden of proving by a preponderance of the evidence that a rate change is justified and the petition is consistent with the factors required under these statutes and regulations.

Oregon and Washington Have Adopted Similar Formulas in Practice

In both Oregon and Washington, these statutes and regulations are implemented through the adoption of Orders issuing new tariffs and rates upon petition after an application of a formula.

The Oregon formula is described as a process to reach an “amount [which] represents the total revenues that must be generated under the tariff to reach the target total revenue.” The formula is:

$$(TNI \times \# \text{ of pilots}) + \text{expenses} = \text{Target Total Revenue}$$

[Oregon, Final Order BP 12, page 4] (Attached)

In Washington, where the process was only initiated for the first time it was first necessary to “determine the appropriate revenue requirement formula” and then “[a]fter we determine the appropriate formula, we then determine the relevant inputs to arrive at [the] revenue requirement.” The formula adopted is:

$$\text{Revenue Requirement} = \text{Expenses} + \text{Depreciation} + \text{Interest} + \text{TDNI}$$

[Washington, Final Order (Order 09), page 16] (Attached)

Addressing Outstanding Issues In the Context of a Likely Formulaic Approach

Both PMSA and SFBP believe that for purposes of this Ad Hoc Committee’s work, that since the Committee is moving in the direction of adopting processes similar to Oregon and Washington we should anticipate that we are also moving in the direction of adopting a formulaic approach to ratesetting. The Committee may benefit from anticipating this approach in its consideration of additional steps beyond the ALJ process, what may or may not be subject to review, and the nature of the scope of review and subsequent approvals or denials.

Maritime Pilots and Pilotage

ORS 776.115

Powers and duties of board

- **rules**
 - **fees**
-

The Oregon Board of Maritime Pilots shall:

- (1)** Fix the manner of calling and fixing the places of meetings and hold at least one meeting each calendar year.
- (2)** Provide for efficient and competent pilotage service on all pilotage grounds, and regulate and limit the number of licensees and trainees under this chapter, such number of licensees and trainees to be regulated and limited to the number found by the board to be required to render efficient and competent pilotage service. The primary consideration of the board is public safety. If a proposed rule would result in the significant limitation of competition among licensees or pilot organizations that exist in this state on January 1, 1991, the board shall first make a determination that the proposed rule is essential to protect the safety of the public.
- (3)** Establish and fix the boundaries of pilotage grounds not described in ORS 776.025 (Description of bar and river pilotage grounds).
- (4)** In accordance with the applicable provisions of ORS chapter 183, establish by rule a licensing system for persons licensed to pilot, for persons licensed as trainees and for pilot organizations who train persons to pilot, including but not limited to provisions prescribing:
 - (a)** The form and content of and the times and procedures for submitting an application for license issuance and renewal. The pendency of an investigation shall not affect the renewal process.
 - (b)** The term of license of a pilot and the annual license fee, subject to the maximum annual license fee established pursuant to ORS 776.357 (Maximum maritime pilot license fee).
 - (c)** The requirements for and the manner of testing competency of license applicants.
 - (d)** Those actions or circumstances that constitute failure to achieve or maintain competency or that otherwise constitute a danger to public health and safety and for which the board may refuse to issue or renew a license, may suspend or revoke a license or may reprimand a licensee.
 - (e)** Classes of licenses that specify the size of vessels the licensee is authorized to be trained to pilot or to pilot on those river pilotage grounds for which the trainee or pilot is licensed.

- (5)** (a) Fix, at reasonable and just rates, pilotage fees, extra fees for vessels in distress, fees for extraordinary pilotage services, fees for a licensee or trainee being carried to sea unwillingly and reimbursement for the return to station or for the detention of a licensee or trainee, except that pilotage fees shall not be less inbound or outbound on vessels, propelled in whole or in part by their own power, than the following:
- (A)** Between Astoria and Portland or Vancouver, \$2.50 per foot draft and 2 cents per net ton;
 - (B)** Between Astoria or Knappton and the sea, \$3 per foot draft and 2 cents per net ton;
 - (C)** Between Yaquina Bay and the sea, \$3 per foot draft and 2 cents per ton; and
 - (D)** Between Coos Bay and the sea, \$2.50 per foot draft and 2 cents per ton.
- (b)** In fixing fees pursuant to paragraph (a) of this subsection, the board shall give due regard to the following factors:
- (A)** The length and net tonnage of the vessels to be piloted.
 - (B)** The difficulty and inconvenience of the particular service and the skill required to render it.
 - (C)** The supply of and demand for pilotage services.
 - (D)** The public interest in maintaining efficient, economical and reliable pilotage service.
 - (E)** Other factors relevant to the determination of reasonable and just rates.
- (6)** Conduct or authorize the holding of hearings. In so doing the board or the administrative law judge may issue subpoenas pursuant to ORS 776.123 (Subpoenas), conduct investigations pursuant to ORS 776.126 (Inspection of premises, ship or facility), administer oaths, take depositions and fix the fees and mileage of witnesses.
- (7)** Adopt any rule or make any order, as set forth in ORS chapter 183, for the effective administration and enforcement of this chapter.
- (8)** Establish rates pursuant to subsection (5) of this section, for a period of not less than two years, that continue in effect until a subsequent hearing process. Rates may include automatic adjustment provisions to reflect changing economic conditions. [1957 c.448 §4; 1981 c.88 §5; 1983 c.313 §5; 1987 c.158 §157; 1987 c.775 §3; 1991 c.234 §8; 1993 c.741 §112; 1993 c.796 §4; 2003 c.75 §110; 2003 c.619 §1; 2007 c.621 §1; 2009 c.280 §4]

Location: https://oregon.public.law/statutes/ors_90.302.

Original Source: § 90.302 — Fees allowed for certain landlord expenses; accounting not required; fees for noncompliance with written rules; tenant remedies, https://www.oregonlegislature.gov/bills_laws/ors/ors090.html (last accessed Jun. 26, 2021).

Pilotage services—Tariffs—Commission shall establish—Duties.

(1) The commission shall establish in tariffs the rates for pilotage services provided under chapter **88.16** RCW.

(2) The commission shall maintain a list of persons who have indicated to the commission a desire to be notified of any potential change in pilotage tariffs and in any proposed rules regarding the setting of pilotage tariffs.

(3) The commission shall ensure that the tariffs provide rates that are fair, just, reasonable, and sufficient for the provision of pilotage services.

(4) In setting tariffs, the commission may fix extra compensation for extra services to vessels in distress, for awaiting vessels, for all vessels in direct transit to or from a Canadian port where Puget Sound pilotage is required for a portion of the voyage, or for being carried to sea on vessels against the will of the pilot, and for such other services as may be determined by the board. In setting tariffs, the commission must include a tariff surcharge to fund the stipend the board of pilotage commissioners is authorized to pay to pilot trainees and to use in its pilot training program under RCW **88.16.035**. As an element of the Puget Sound pilotage district tariff, the commission may consider pilot retirement expenses incurred in the prior year in the Puget Sound pilotage district. However, under no circumstances shall the state be obligated to fund or pay for any portion of retirement payments for pilots or retired pilots.

(5) In exercising duties under this section, the commission may:

(a) Request assistance from the board;

(b) Assign an administrative law judge to handle the proceeding and prepare an initial order, which the commission may review pursuant to RCW

34.05.464, or assign an administrative law judge as a facilitator for settlement purposes; and

(c) Adopt rules or issue orders to implement the provisions of chapter 107, Laws of 2018.

[**2018 c 107 § 8.**]

NOTES:

Effective date—2018 c 107: See note following RCW **88.16.055**.

Oregon Public Utility Commission, Oregon Board of Maritime Pilots

Rule 856-030-0000

Ratemaking — Substantive Elements

The Board shall for each pilotage ground, establish a rate structure that provides for efficient, economical, and competent pilotage services and fair compensation for pilotage services and expenses:

- (1)** In determining the number of pilot positions needed and fair compensation for services and expenses, the Board shall consider:
 - (a)** The amount of activity, including number of vessels, number of pilot assignments, size of vessels by gross registered tonnage (GRT), length, and draft;
 - (b)** Any change in the amount of activity since the last rate order;
 - (c)** The public interest in prompt and efficient service;
 - (d)** The professional skills and experience required of a pilot and the difficulty and inconvenience of providing the service, including time necessary to perform the service;
 - (e)** Evidence of compensation for comparable maritime professions, including other state regulated pilotage associations;
 - (f)** Evidence of the economic and market conditions existing both locally and within the region of any pilotage association used for the purpose of comparison;
 - (g)** Total gross and net income for the pilots' group since the last rate order, or as directed by the Board, including sources of income by tariff category; and
 - (h)** Individual amounts paid to pilots since the last rate order, or as directed by the Board, which may be shown as both gross and adjusted gross income, as reported for tax purposes.
- (2)** For the purposes of subsection (1)(e) above, the Board shall at a minimum consider evidence of the compensation and benefits provided to pilots in pilotage associations serving Puget Sound and San Francisco.
- (3)** In determining compensation for expenses the Board shall consider evidence of appropriate expenses related to the provision of pilotage services as shown by records of the pilots' group, and verified by an independent audit.
- (4)** In receiving evidence on any financial or economic issue, the Board or its hearings officer may require parties to submit independently audited or other financial records in order to hold all parties to a comparable standard of proof.

Original Source: § 90.302 — Fees allowed for certain landlord expenses; accounting not required; fees for noncompliance with written rules; tenant remedies, https://www.oregonlegislature.gov/bills_laws/ors/ors090.html (last accessed Jun. 26, 2021).

General rate proceedings—Marine pilotage services in Puget Sound.

General rate proceeding filings for marine pilotage services must include the information described in this section. The commission may reject a filing that fails to meet these minimum requirements, without prejudice to a petitioner's right to refile its request in conformance with this section.

(1) Testimony and exhibits. When the filing is suspended and a hearing scheduled the petitioner must file with the commission one paper copy and an electronic copy for all testimony and exhibits that the petitioner intends to present as its direct case. The electronic copy of all filed material must be in the format identified in WAC **480-07-140**(6). The commission may require the petitioner to file additional paper copies if the commission suspends and conducts a hearing on the filing.

(2) Proposed tariff. Proposed tariff sheets must be filed in electronic form supplemented by one paper copy. The proposed tariff sheets should be in legislative format (i.e., with strike-through to indicate the material to be deleted or replaced and underlining to indicate the material to be inserted) consistent with the requirements in WAC **480-160-110** through **480-160-140**, as well as copies of any tariff sheets that are referenced in the new or amended tariff sheets. The electronic copy must be submitted in the format identified in WAC **480-07-140**(6).

(3) Cover letter. A cover letter prepared in compliance with the provisions of WAC **480-07-140**.

(4) Work papers. One paper and one electronic copy of all supporting work papers for the test period, which is the most recent twelve-month period for which financial data are available. The electronic copy must be submitted in the format identified in WAC **480-07-140**(6). Work papers reflecting the test year must include:

(a) Schedule of fixed or long-term assets.

(b) Computation of revenue requirement for the rate effective year.

(c) An accrual basis income statement and balance sheet.

(d) An income statement with restating actual and pro forma adjustments, including all supporting calculations and documentation for all adjustments. The filing must identify dollar values and underlying reasons for each restating actual and pro forma adjustment.

(e) A calculation of the revenue impact of the proposed tariff revisions.

(f) An income statement listing all revenue and expense accounts by month.

(g) If nonregulated revenue represents more than ten percent of total test period revenue, a detailed separation of all revenue and expenses between regulated and nonregulated operations.

(h) A detailed list of all nonregulated operations, including the rates charged for the services rendered. Copies of all contracts must be provided on request.

(i) Schedule reconciling, within five percent, rates and charges:

(i) Earned during the test year to actual reported revenues; and

(ii) Expected to be earned during the rate year to computed revenue requirement.

(j) At the time the petitioner makes its general rate case filing, the petitioner must provide to commission staff one paper and one electronic copy of all supporting work papers of each witness in a format as described in this subsection. When the filing is suspended and a hearing scheduled, if the testimony, exhibits, or work papers refer to a document including, but not limited to, a report, study, analysis, survey, article or decision, that document must be included as a work paper unless it is a reported court or agency decision, in which case the reporter citation must be provided in the testimony. If a referenced document is voluminous, it need not be provided, but the petitioner must identify clearly the materials that are omitted and their content. Omitted materials must be provided or made available if requested by the commission.

(k) Organization. Work papers must be plainly identified and well organized, and must include an index and tabs. All work papers must be cross referenced and include a description of the cross referencing methodology.

(l) Electronic documents. Parties must provide all electronic files supporting their witnesses' work papers. The electronic files must be fully functional and include all formulas and linked spreadsheet files. Electronic files that support the exhibits and work papers must be provided using logical file paths, as necessary, by witness, and using identifying file names.

(m) Projected changes in vessel assignments and a detailed portrayal of vessel assignments for the previous twelve months along with the associated tariff and fees charged to vessel operators for pilotage services as required in chapter **480-160** WAC.

(n) The number of pilots licensed in the pilotage district. At a minimum, work papers must provide the board of pilotage commissioners' determination pursuant to WAC **363-116-065**(2).

(o) The known increases or decreases in state fees and taxes.

(p) Normalized annual costs of any major capital investment or other recurring expenses.

(q) Revenues generated by tariff and fees for the test period, and any restating or pro forma adjustments based on available projected vessel assignments, vessel type, vessel tonnage, routes, number of pilots or other tariff-based billing determinates.

(r) Necessary tariff surcharge to fund the stipend the board of pilotage commissioners is authorized to pay to pilot trainees and to use in its pilot training program under RCW **88.16.035**.

(s) Change in methodologies for adjustments. If a party proposes to calculate an adjustment in a manner different from the method that the commission most recently accepted or authorized for the petitioner, it must also present a work paper demonstrating how the adjustment would be calculated under the methodology previously accepted by the commission, and a brief narrative describing the change. Commission approval of a settlement does not constitute commission acceptance of any underlying methodology unless so specified in the order approving the settlement.

[Statutory Authority: RCW **80.01.040**, **80.04.160**, **81.116.020**, and **81.116.900**. WSR 19-11-012 (Docket TP-180402, General Order R-596), § 480-07-525, filed 5/3/19, effective 6/3/19.]

BEFORE THE OREGON BOARD OF MARITIME PILOTS

In the Matter of

COLUMBIA RIVER
PILOTS ASSOCIATION,

Petition For a Change in Pilotage Rates.

FINAL ORDER
BP 12

DISPOSITION: REVISED RATE SCHEDULE ADOPTED

I. INTRODUCTION AND PROCEDURAL HISTORY

On March 11, 2021, pursuant to ORS 776.115(5) and OAR 856-030-0010, the Columbia River Pilots Association (COLRIP) filed a petition for a change in pilotage rates for the Columbia and Willamette River Pilotage Ground (CWRPG). The most recent COLRIP rate proceeding, BP 9, resulted in the issuance of Final Order 10-01 on May 19, 2010, with the tariff effective June 1, 2010.

In its petition, COLRIP proposes changes to Section 3 of the Oregon Pilotage tariff, No. A-10, including increasing the transit fee and draft rate, increasing the detention fee and moving to a flat rate with a 12-hour maximum, and implementing a harbor move charge for all transits to or from Astoria that are over eight hours (exempting articulated tug-barge (ATB) vessels). Additionally, COLRIP proposes an increase of one-half percent in the annual cost-of-living adjustments (COLA), effective in September for each of the five years, 2021 through 2025. Finally, COLRIP proposes a 10 percent discount for container vessels calling at Port of Portland, Terminal 6 for a one-year period, applicable to all CWRPG rates and charges.

COLRIP explains that prior to filing its petition, COLRIP engaged in settlement negotiations with the Columbia River Steamship Operators Association (CRSOA), and the ports of Portland, Vancouver, Longview and Kalama, with all parties except one entering into a settlement agreement. Under the settlement, the parties agreed that COLRIP's proposed tariff changes are fair and reasonable, and should stand for at least five years from the date put into effect by the Oregon Board of Maritime Pilots (Board).¹ The settlement agreement also provides that the expenses of the Board related to this proceeding shall be shared equally among all parties.

On April 15, 2021, the ALJ assigned to the proceedings held a procedural conference. On April 16, 2021, the ALJ issued a memorandum adopting the procedural schedule jointly

¹ COLRIP2. COLRIP represents that the Port of Kalama opted to remain neutral. Petitioner's Opening Brief at 3.

(3) In determining compensation for expenses the Board shall consider evidence of appropriate expenses related to the provision of pilotage services as shown by records of the pilots group, and verified by an independent audit.⁴

The Ratemaking Process. Ratemaking is a two-step process in which the Board first determines a reasonable and just total revenue level and then, sets rates for specific tariff items to produce the appropriate amount of total revenue. The Board calculates the total revenue amount by determining the appropriate TNI level for a pilot on a particular pilotage ground, the number of pilots needed to adequately provide pilotage services for the vessels on that pilotage ground, and the expenses of providing those services.

First, the Board determines the appropriate TNI per pilot. The TNI per pilot is then multiplied by the number of licensed pilots the Board finds are necessary to provide adequate pilotage services to vessels crossing the pilotage ground. Historically, the Board's practice has been to add to that figure the projected reasonable operating expenses and costs that the pilot group is expected to incur in providing the pilotage services. The resulting amount represents the total revenues that must be generated under the tariff to reach the target total revenue [(TNI) x (pilots) + (expenses) = target total revenue]⁵. Next, a projection about the anticipated amount of ship traffic (the number of transits) is used to determine how much each vessel must pay to generate the total amount of revenue necessary to cover projected costs and pilot incomes.

Actual pilot income varies from TNI based on the differences between the levels of vessel traffic and operating costs from those assumed during the ratemaking process. These variations between target and actual levels of income are a fundamental result of the rate setting process. Historically, when target and actual income levels varied greatly, usually due to economic conditions, the rate setting process would be initiated to reset the tariff. Due to the Board's approval of annual cost of living adjustments to the tariff starting in 1993, inflation is no longer an economic factor creating significant variations in actual net income level. Under the Oregon Pilotage tariff, No. A-10, COLRIP's rates are subject to automatic adjustment mechanisms for inflation, Fare-box benefits expenses, and traffic-related increases, as well as an annual adjustment to the charge to fund continuing professional development. Ratemaking is, nevertheless, a prospective process. The rate setting process is not designed to address events retroactively to compensate for either windfall or shortfall. Evidence of current and projected levels of relevant factors form the bases for the ratemaking process.⁶

⁴ OAR 856-030-0000.

⁵ Net distribution per pilot is an alternative term for "TNI." TNI is net of all pilot benefits and expenses.

⁶ COLRIP argued in its brief and at hearing that TNI should not be the basis for rate making process, and that it was not so for the Board's final order in case BP11. However, COLRIP appears to mistake the absence of the express terms "TNI" or "Target Net Income" in the detailed analysis of the particular changes proposed in BP11 for a disregard of the concept that rate making is driven by the goal of a prospective ("target") and necessarily approximate increase or decrease in net pilot income. Rates cannot be "just and reasonable" in a vacuum. Under the Board's statutes and rules, rates must be just and reasonable with respect to the compensation provided to the pilots for their services, and with respect to the fee paid by vessels for the services they receive. The current Board administrative rules favor more detailed consideration of pilot compensation justification and comparators than of the value to vessel owners of the piloting services provided or comparators of amounts paid per vessel on other pilotage grounds. In case BP 11, the proposed rate increase was primarily for two distinct purposes: a change to the COLA, and an increase specifically allocated to funding pilot pensions. By way of contrast, in addition to a proposal to increase the COLA adjustment, COLRIP proposed a more significant and

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND PILOTS,

Respondent.

DOCKET TP-190976

ORDER 09

FINAL ORDER REJECTING TARIFF
SHEETS; AUTHORIZING AND
REQUIRING COMPLIANCE FILING

***Synopsis:** The Commission rejects the tariff sheets filed by Puget Sound Pilots (PSP) on November 19, 2019. The Commission approves a two-year rate plan that authorizes a revenue requirement of \$35,882,859 in year one and a revenue requirement of \$36,308,428 in year two, which represents a revenue increase of approximately 2.7 percent in the first year and an additional 1.3 percent in year two. The Commission requires PSP to file revised tariff sheets to reflect these decisions.*

The Commission adopts Commission Staff's (Staff) proposed revenue requirement formula and adopts Staff's projected number of vessel assignments for the first year of the rate plan and adopts Staff's average assignment level for rate setting purposes only. The Commission approves 50 funded full-time equivalent (FTE) pilots in year one and 52 FTE pilots in year two. The number of funded pilots in each year includes one administrative pilot, which is allocated for PSP's president. The Commission denies PSP's request to fund an additional administrative pilot for PSP's vice president because PSP failed to provide sufficient evidence to justify the need to utilize a second pilot to perform primarily or exclusively administrative duties.

The Commission further determines that PSP failed to provide sufficient data to support its comparability analysis, failed to establish that compensation levels are set too low to attract or retain qualified candidates, and failed to prove that its proposed distributed net income (DNI) of \$500,000 will result in rates that are fair, just, reasonable, and sufficient.

57 The Commission’s rules for marine pilotage services reflect these well-established practices. Pursuant to WAC 480-07-525, the interested person proposing a new tariff for marine pilotage in Puget Sound must, among other requirements, provide evidence of a test year. This is “the most recent twelve-month period for which financial data are available.”⁸⁸ The interested person provides both “restating” and “pro forma” adjustments to the historical test year.⁸⁹ Notably, pro forma adjustments for marine pilotage may include projected vessel assignments and projected vessel types during the rate effective year.⁹⁰

58 This information forms the basis for the revenue required to provide marine pilotage services, referred to as the revenue requirement, during the rate effective year. Rates are then set at a level designed to recover the revenue requirement based on sales.⁹¹ In the case of marine pilotage services, historic and projected vessel traffic reflects the sales at issue.

C. REVENUE REQUIREMENT – CONTESTED ISSUES

1. Revenue Requirement Formula

59 In this proceeding, we determine the appropriate revenue requirement formula for PSP. After we determine the appropriate formula, we then determine the relevant inputs to arrive at PSP’s revenue requirement.

60 Staff proposes a revenue requirement formula based on operating expenses and the amount of revenue distributed to pilots, as follows:

$$\text{Revenue Requirement} = \text{Expenses} + \text{Depreciation} + \text{Interest} + \text{TDNI}.$$
⁹²

⁸⁸ WAC 480-07-525(4).

⁸⁹ WAC 480-07-525(4)(d).

⁹⁰ WAC 480-07-525(4)(q).

⁹¹ The Regulatory Assistance Project, *Electricity Regulation in the US: A Guide* 46 (2011).

⁹² Kermode, Exh. DPK-1 Tr 7.

61 In this formula, “TDNI” describes the total amount of PSP revenue available for distribution to member pilots as compensation, or total distributable net income. TDNI reflects each pilot’s distributable net income (DNI) multiplied by the number of pilots.⁹³

62 PSP agrees with Staff’s formula.⁹⁴ Capt. Quick explains that Staff’s methodology is the “generally accepted method of determining pilotage rates nationally.”⁹⁵ However, PSP disagrees with Staff on certain inputs, such as the appropriate level for DNI and other expenses.

63 PMSA also agrees with Staff’s formula.⁹⁶ PMSA suggests certain modifications to the formula,⁹⁷ which we discuss below. PMSA maintains that the testimony it offered from John Ramirez was intended to demonstrate that the current tariff was sufficient, and that the testimony was not intended to offer an alternative revenue requirement formula.⁹⁸

Commission Determination

64 We adopt Staff’s revenue requirement formula. PSP is an association of professionals. Such associations commonly distribute nearly all of their earnings to their owners or partners.⁹⁹ Although PSP requires an equity “buy in” for pilots joining the organization and an equity “buy out” for retiring pilots, PSP is not a capital-intensive organization. PSP’s tariffs primarily reflect the value of pilotage services and the compensation paid to pilots for their services. Indeed, pilot DNI accounts for almost two-thirds of PSP’s revenue requirement.¹⁰⁰ We therefore adopt Staff’s revenue requirement formula because it appropriately reflects PSP’s business structure as an association of professionals.

65 PMSA submits that the formula should provide a separate category for “pilot compensation expenses.” This would include all compensation paid to pilots separately from TDNI, including individual pilot business expenses, transportation cost

⁹³ Although some witnesses in this proceeding use different terms, here we will use the terms TDNI and DNI.

⁹⁴ PSP Initial Brief ¶ 13.

⁹⁵ Quick, Exh. GQ-5T 2.

⁹⁶ PMSA Corrected Initial Brief ¶ 5.

⁹⁷ *Id.*

⁹⁸ PMSA Reply Brief ¶¶ 36-37.

⁹⁹ Kermode, Exh. DPK-1 Tr at 8.

¹⁰⁰ *Id.* at 9.