

PMSA & SFBP jointly submit this document to the Ad Hoc Rate Committee as rough draft of a formula based utility model rate-setting statute. Included also are references to similar existing statutes in CA, OR, WA. It represents core factors that both parties agree are necessary for an effective ratesetting process. It's not intended to be all inclusive and each party reserves the right to comment on specific language as the draft language is developed.

We have purposefully not addressed the issue of the relationship / decision making authority of ALJ and Board and its integration.

**Legislative Intent:** *The Legislature recognizes that the waters, harbors, and ports of the San Francisco Bay and its tributaries are vital resources for the State, and it is necessary in the interest of public health, safety, and economic well-being to establish a fair, just and reasonable rate structure that will generate sufficient resources for the provision of a safe, competent, reliable, and efficient pilotage service. (SFBP Drafted Language)*

1) The rate shall be determined by the formula:

Target Net Income Per Pilot \* Number of Pilots + Operating Costs = Revenue Requirement

2) In setting the revenue requirement, primary consideration shall be given to the public interest in promoting and maintaining a safe, competent, reliable, and efficient pilotage service:

a) In determining target net income for individual pilots:

- (i) The professional skills and experience required of a state-licensed pilot and the difficulty, risk, and lifestyle commitment of providing piloting services, as well as associated activities in support of the pilotage operation;
- (ii) Evidence of compensation for comparable maritime professions, including individuals in other state regulated pilotage associations, at a minimum considering evidence of the compensation and benefits.
- (iii) Evidence of the economic and market conditions existing both locally and within the region of any pilotage association used for the purpose of comparison.
- (iv) Consumer Price Index and Employment Cost Index;
- (v) Individual amounts paid to pilots since the last rate order, or as directed.
- (vi) Any other factor deemed relevant to the determination of target net income.

b) In determining the number of pilots:

- (i) The number of licensed pilots determined by a hearing pursuant to Harbors and Navigation Code Sections 1170.1 and 1170.2;
- (ii) The number of licensed pilots at the time of the rate hearing;
- (iii) Any projected changes in the number of licensed pilots;
- (iv) Any other factor deemed relevant to the determination of the number of funded pilots.

c) In determining operating costs for the pilotage service:

- (i) All costs of providing pilotage service.
- (ii) Any projected changes in the cost of providing pilotage service;
- (iii) The amount of activity, including number of vessels, size of vessels by gross registered tonnage (GRT), length, and draft;
- (iv) Any recent or projected changes in the amount of activity;
- (v) Producer Price Index and Employment Cost Index;
- (vi) Total gross and net revenue for the pilots' association since the last rate order, including sources of revenue by tariff category;
- (vii) Any other factor deemed relevant to the cost of the provision of pilotage service.

## **REFERENCES**

### **Legislative Intent -**

The adopted tariff must establish a fair, just and reasonable rate structure that will generate sufficient resources for the provision of a safe, competent, reliable, and efficient pilotage service.

[xref ORS 776.115(5)(a); RCW 81.116.020(3); Cal. Pub. Util Code §451 – attached]

### **Formula – Item 1**

The rate shall be determined by the formula:

(Target Net Income per Pilot \* Number of Pilots) + Operating Costs = Revenue Requirement

[xref Oregon, Final Order BP12, p.4 ; Washington, Order 09, p. 16]

### **Overall Rate Setting – Item 2**

1) In fixing rates, consideration of formula inputs shall include due regard to the following factors:

- (a) The length and net tonnage of the vessels to be piloted.
- (b) The difficulty 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.

[xref ORS 776.115(5)(b)]

Use of Indexes –

In the second year of the two-year rate plan, the Commission authorizes a revenue requirement of \$36,308,428, which represents an additional increase of 1.3 percent, and funds 52 FTE pilots. The

Commission authorizes a one-time DNI increase of 2.3 percent to provide a cost of living adjustment based on the Consumer Price Index for All Urban Consumers as established by the U.S. Bureau of Labor Statistics, which results in a DNI of \$410,075 per FTE pilot and a TDNI of \$21,323,883. The Commission also requires PSP to include only 50 percent of the value of pilot medical insurance expenses in its revenue requirement beginning in year two of the rate plan, and to account for the remaining 50 percent as pilot compensation that must be paid from pilot DNI.

We recognize that PSP's rates have remained stagnant for five years, and that the cost of living typically increases annually due to inflation. To account for this reality, the Commission authorizes a one-time DNI increase of 2.3 percent in year two to provide a cost of living adjustment based on the 2019 Consumer Price Index for All Urban Consumers as established by the U.S. Bureau of Labor Statistics. Accordingly, the Commission authorizes a DNI of \$410,075 per FTE pilot in year two. 298

WUTC Order: Washington, Order 9, Paragraphs 27, 167

#### **Determination of TNI – Item 2a**

In determining the total number of pilots, target net income per pilot, and operating costs, consideration of formula inputs shall include due regard to the following factors:

- (e) The amount of activity, including number of vessels, number of pilot assignments, size of vessels by gross registered tonnage (GRT), length, and draft;
- (f) Any change in the amount of activity since the last rate order;
- (g) The public interest in prompt and efficient service;
- (h) The professional skills and experience required of a pilot and the difficulty of providing the service, including time necessary to perform the service;
- (i) Evidence of compensation for comparable maritime professions, including other state regulated pilotage associations, at a minimum considering evidence of the compensation and benefits provided to pilots in pilotage associations serving Puget Sound and the Columbia Bar and Columbia River;
- (j) Evidence of the economic and market conditions existing both locally and within the region of any pilotage association used for the purpose of comparison;
- (k) 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
- (l) 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.

[xref OAR 856-030-0000(1), (2)]

**Determination of Number of Pilots – Item 2b**

In determining the number of pilots, consideration of formula inputs shall include due regard to the following factors::

- b) The number of licensed pilots determined by a hearing pursuant to Harbors and Navigation Code Sections 1170.1 and 1170.2;
- c) The number of licensed pilots at the time of the rate hearing;
- d) Any projected changes in the number of licensed pilots;
- e) Any other factor deemed relevant to the determination of the number of pilots.

[xref – HNC 1170.1, 1170.2]

**Determination of Operating Costs – Item 2c**

In determining operating costs for the pilotage service, consideration of formula inputs shall include due regard to the following factors:

- f) All costs of providing pilotage service.
- g) Any projected changes in the cost of providing pilotage service;
- h) The amount of activity, including number of vessels, size of vessels by gross registered tonnage (GRT), length, and draft;
- i) Any recent or projected changes in the amount of activity;
- j) Producer Price Index and Employment Cost Index
- k) Total gross and net revenue for the pilots' association since the last rate order, including sources of revenue by tariff category;
- l) Any other factor deemed relevant to the cost of the provision of pilotage service.
- m) 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.
- n) 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

[xref OAR 856-030-0000(3), (4)]