



NOTICE OF REVISED SERVICE CHARGES

March 4, 2022

GENERAL

Pursuant to section 33.3 of the *Pilotage Act*, S.C. 1985, c. P-14, the following document provides notice (the “**Notice**”) of the Pacific Pilotage Authority’s (the “**Authority**”) proposed revised charges which would come into effect on June 5, 2022, except as otherwise noted.

This Notice includes a description of the proposal, including justification in relation to establishing or revising the pilotage charge, and the circumstances in which the charge will apply. In developing the charge, the Authority has observed all charging principles established under section 33.2 of the *Pilotage Act*.

A document setting out additional details in relation to this proposal, including a justification in relation to the charging principles established under section 33.2 of the *Pilotage Act*, is available upon request from the Authority.

Persons interested in making representations to the Authority regarding the proposal set out in this Notice may do so in writing to the address set out in section 5 of this Notice and must be received by the Authority no later than close of business on **April 4, 2022**.

Any person making written representations must include a summary of those representations. Note that this summary may be made public by the Authority. In addition, any person making written representations by the date set out in this Notice will have an opportunity to file a notice of objection related to the proposal with the Canadian Transportation Agency.

This Notice affects charges for services that the Authority provides or makes available in relation to compulsory pilotage under s. 33(1) of the *Pilotage Act*.

Except for the revisions proposed in this Notice, all the existing charges and related terms and conditions, set out in the “Customer Guide to Charges” remain in effect.

This Notice consists of the following sections:

- 1) Proposed Revision to Service Charge Rates
 - 1.1 Summary
 - 1.2 Background
 - 1.3 Proposed rates
- 2) Proposed Implementation of the Proposed Revised Service Charges;
- 3) Re-establishment of Current Service Charges;
- 4) Definitions and Calculations; and
- 5) Information regarding the Notice and on making representations to the Pacific Pilotage Authority.

1. PROPOSED REVISION TO PILOTAGE CHARGE RATES

1.1 Summary

The Authority has experienced a challenging time financially over the past two years as a direct result of the global pandemic (“COVID-19”), resulting in accumulated losses over the period of \$2.1 million. The Authority has also signed a new contract with the BC Coast Pilots (“BCCP”) effective January 1, 2022. To maintain financial self-sufficiency in 2022, an adjustment to the base rate plus an increase in the current temporary surcharge is required to fund the cost of operations. The increases will cover:

- Contractual increases in operating costs;
- Increases in the fixed cost portion of the operation;
- The cost of training deferred from 2020 and the normal level of training for 2022; and
- Any losses from the continuation of reduced assignments in 2022.

The pandemic and resulting recession have made assignment forecasting in 2022 and beyond much more difficult to achieve when compared to previous years. In addition, we anticipate short-term increases in pilot training and transportation costs. To maintain financial self-sufficiency in this environment, the Authority proposes an increase in the hourly and unit fee rates for 2022 of 4.8% and an increase of \$225 in the current temporary surcharge to \$400 per assignment.

The Authority will continue to monitor traffic volumes during 2022 and their effect on revenue and costs, as well as any other related effects of the pandemic, to determine when it would be appropriate to end or reduce the temporary surcharge.

1.2 Background

When establishing a new charge for pilotage services or when revising an existing pilotage charge, the Authority must follow the charging principles set out in section 33.2 of the *Pilotage Act*. These principles prescribe that, among other requirements, charges must not be set at levels that, based on reasonable and prudent projections, would generate revenues exceeding the Authority’s current and future financial obligations related to the provision of compulsory pilotage services. Pursuant to the charging principles, the Authority’s Board of Directors approves the amount and timing of changes to customer service charges. The Board of Directors also approves the Authority’s annual budget which includes the amounts to be recovered through customer service charges for the year.

As noted, the Authority plans its operations to result in a financial position in which revenues do not exceed current and future financial obligations related to the provision of compulsory pilotage services.

The overall current state and outlook for local, national, and international economic health has a direct impact on cargo trade and tourism. This will directly impact the Authority’s assignment volumes and ultimately influence how the Authority supplies its services in a safe and efficient manner.

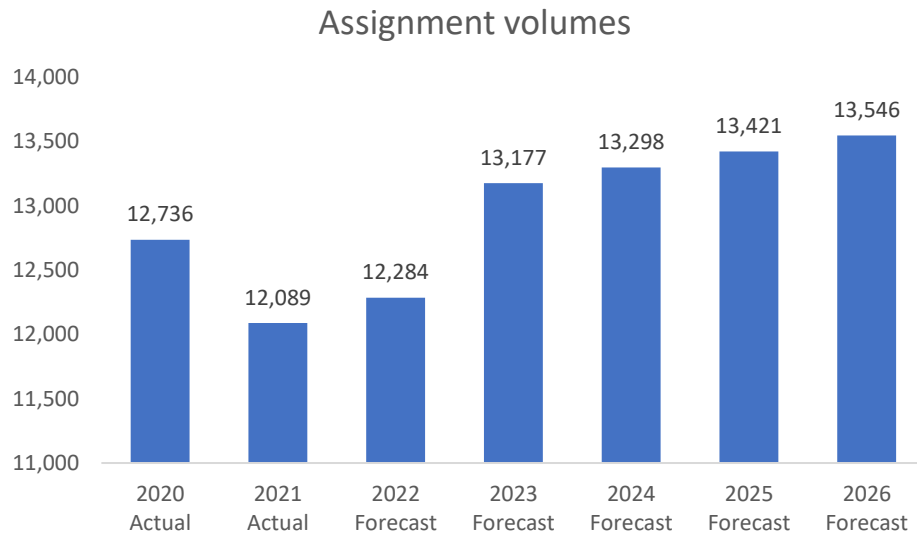
The COVID-19 pandemic has had a broad impact on the Authority. Firstly, as a direct result of COVID-19, the cruise ship season has been cancelled for the past two years, significantly reducing

revenue. In addition, vessel traffic across most product sectors has weakened, notably in the second half of 2021. We are cautiously optimistic that cruise ships will return in 2022, but probably initially at lower volumes than historical levels. Secondly, the expenses for the Authority are expected to remain abnormally high in 2022. To ensure pilot safety and availability, more costly chartered flights have been used to transport pilots and we expect that to continue in 2022 if COVID-19 infections remain high. Furthermore, as pilot training schools were closed in 2020 a backlog has built up for required pilot training. To catch up with the deferred training, we will incur higher training costs in 2022 than historically normal.

The Authority’s previous contract with BCCP for the supply of pilots came to an end on December 31, 2021 and negotiations for a new contract began early in the Fall of 2021. After considerable effort to achieve a negotiated settlement, supplemented by mediation, the process concluded with a Final Offer Selection by an independent arbitrator. The arbitrator selected the final offer of the BC Coast Pilots, which included increases in the rates for hourly and unit fees equivalent to increases in the Consumer Price Index for Vancouver (“CPI”) plus 1%. The contract is for four years from January 1, 2022 to December 31, 2025 with annual increases of CPI plus 1% in each of the first three years and CPI in the fourth year. Since the new contract rates are effective January 1, 2022 and any increase in the Authority’s service fees would not be effective until June 2022, there would be a period of five months during which the BCCP increases would not be funded from service fees. The increase in the temporary surcharge is intended to offset this shortfall.

Assignment volumes

Assuming the return of a significant majority of cruise ships in 2022, the Authority’s traffic is forecast to increase by 1.6% in 2022 to 12,284 assignments, and to 13,177 assignments in 2023. This estimate is heavily dependent on the extent and timing of cruise ship traffic returning to BC.



Forecasted financial summary

STATEMENT OF COMPREHENSIVE INCOME						
(in thousands of dollars)	Actual	Forecast				
For the year ended December 31	2021	2022	2023	2024	2025	2026
Total revenue	84,618	95,381	105,150	108,762	111,724	114,773
Total expenses	86,498	94,872	105,331	108,886	111,454	114,815
Comprehensive income (loss)	(1,880)	509	(181)	(124)	270	(42)

Based on projected volumes, the Authority anticipates that expenses for 2022 will be \$94.9 million. This represents a 10% increase over 2021 and is primarily driven by volume increases from an assumed return of cruise ships; contractual cost increases; training for six new apprentice pilots; and pilot training deferred from 2020 and 2021 that has been carried into 2022.

In 2022, the Authority is also planning to invest \$2.2 million in capital projects.

The Authority's cash reserves have declined during the pandemic and are projected to be \$5.2 million at the end of 2022 compared to \$9.0 million at the end of 2019. Our working capital ratio of current assets to current liabilities has also declined and is forecast to be 0.9 at the end of 2022. We were fortunate in having sufficient reserves to withstand the impact of the pandemic and need to rebuild those reserves in the future.

1.3 Proposed rates

To determine the rate changes required in 2022, the forecasted revenues and cash flow generated have been compared to the amounts the Authority needs to recover based on the financial summary and volumes discussed above. All expected expenses, capital expenditures and reserves are included in the recovery calculation.

Increases in service fees based on hourly or unit fees reflect corresponding increases in the Authority's contract with BCCP. Increases in fees for other services, such as launch or travel fees, reflect increases in CPI. The increase in the temporary surcharge is to fund the time lag between BCCP contract increases and service fee increases. The surcharge also offsets unusually high training and transportation costs caused by the pandemic.

Changes to pilotage charges, proposed to be effective June 5, 2022, are calculated for each service, as outlined in the following table:

Category	Rate increase	New / Adjustment	Application methodology	Effect on customers for 2022
Pilotage rates based on hourly or unit fees	4.8%	Adjustment	All rates affected	\$1.8 million
Other fees	3.8%	Adjustment	All rates affected	\$0.5 million
Temporary surcharge	\$225 increase to \$400 per assignment	Adjustment	All rates affected	\$1.6 million
Total Effect				\$3.9 million

Additional information including supporting calculations is provided in the document Details and Principles Regarding Proposed Revised Service Charges (“*Details and Principles*”). Refer to section 5 for information on how to request and obtain a copy of this document.

2. PROPOSED IMPLEMENTATION OF THE PROPOSED REVISED SERVICE CHARGES

The Authority acknowledges the ongoing challenges faced by its customers and stakeholders within the marine industry because of COVID-19 related issues as well as any pressure on freight rates. These increases are, however, necessary for the Authority to continue to fulfill its mandate to provide safe and efficient pilotage services while maintaining financial self-sufficiency. These charges are being proposed after initial consultation with the industry held in the period prior to the publishing of this Notice.

All charges would be effective on June 5, 2022.

3. RE-ESTABLISHMENT OF CURRENT SERVICE CHARGES

Except for the revisions proposed in this Notice, all the existing charges and related terms and calculations continue in effect, as set out in the Authority’s current *Customer Guide to Charges* (available on the Authority’s website at <https://www.ppa.gc.ca/>)

4. DEFINITIONS AND CALCULATIONS

The definitions and calculations will be found in the Authority’s Customer Guide to Charges, which will be available on the Authority’s website at <https://www.ppa.gc.ca/>.

5. INFORMATION REGARDING THE NOTICE AND ON MAKING REPRESENTATIONS TO THE PACIFIC PILOTAGE AUTHORITY

The Notice is available online and a copy may be downloaded from the Authority’s website at <https://www.ppa.gc.ca/>. Information on the existing charges is also provided on the Authority’s website.

Further details of this proposal, including a justification for the proposal in relation to the charging principles, are provided in the Details and Principles document, which is also available on the Authority's website at <https://www.ppa.gc.ca/>.

Additional copies of the Notice or a copy of the Details and Principles document can be obtained through request at the following address:

In writing: *Chief Executive Officer
Pacific Pilotage Authority
1000-1130 West Pender Street
Vancouver, BC
V6E 4A4*

By email: oberkev@ppa.gc.ca
By telephone (604) 666-3398

Pursuant to section 33.3 of the *Pilotage Act*, any person may make representations about the proposal to the Authority, in writing, on or before the date set out in this Notice. Any person making written representations is to include a summary of those representations. The summary may be made public by the Authority. In addition, any person making written representations by the date set out in this Notice will have an opportunity to file a notice of objection related to the proposal with the Canadian Transportation Agency.

Pursuant to section 33.3 of the *Pilotage Act*, persons interested in making representations in writing to the Authority regarding the Notice may do so in writing to the following address:

*PACIFIC PILOTAGE AUTHORITY
1000-1130 West Pender Street
Vancouver, BC
V6E 4A4
Attention: Chief Financial Officer*

By facsimile: (604) 666-1647

Note: Representations must be received by the Authority not later than the close of business on April 4, 2022.