



NOTICE OF REVISED SERVICE CHARGES

September 29, 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 January 1, 2023, 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 **October 30, 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 three years as a direct result of the global pandemic (“COVID-19”), resulting in accumulated losses over the period from April 2020 to July 2022 of \$3.3 million. An adjustment to base rates to account for rising inflation plus continuation of the current temporary surcharge is required to fund the cost of operations and maintain financial self-sufficiency in 2023. The increases will cover:

- Contractual increases in operating costs;
- Increases in the fixed cost portion of the operation;
- The cost of any remaining deferred training from 2020 and 2021, plus a normal level of training for 2023; and
- The financial impact of a forecasted drop in assignments in 2023.

Changes in most of our operating costs, including pilotage fees payable to the British Columbia Coast Pilots (“BCCP”) and wages of the Authority’s employees under collective agreements, are directly linked to changes in the rate of inflation (measured by changes in the Consumer Price Index for Vancouver (“CPI”). Accordingly, changes in our service charge rates need to reflect changes in the CPI.

Furthermore, any decline in assignment volumes impacts our ability to cover fixed operating costs. Business uncertainty caused by lingering effects of the pandemic; rising inflation; potential of a global recession; conflict in Europe; and weak economic growth in China have led to forecast assignments for 2023 to be below 2022. Our margins have also been under pressure over the past year, notably for pilotage and launch operations.

Finally, financial reserves we had at the start of the pandemic, and which enabled us to mitigate to some extent the financial losses during the pandemic, have been significantly eroded and need to be re-established.

To maintain financial self-sufficiency in this environment, the Authority proposes an increase in the hourly and unit fee rates for 2023 of 10.5% and continuation of the current temporary surcharge of \$400 per assignment. The Authority will continue to monitor traffic volumes during 2023 and their effect on revenue and costs, as well as any other events impacting global trade, 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.

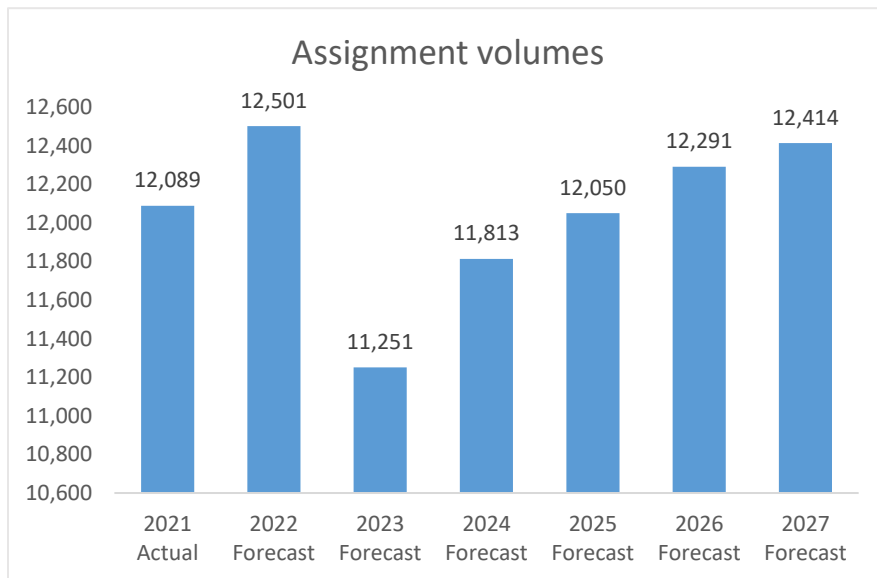
As noted, the Authority plans its operations to result in a financial position in which revenues do not exceed current and future financial obligations related to the provision of compulsory pilotage services.

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.

In 2022 we have seen the welcome return of cruise ships after a two-year absence, and a return to using scheduled rather than chartered flights for the majority of pilot transportation to and from their assignments. However, these positive developments have been tempered by an uncertain economic outlook caused by several factors. Rising inflation has in turn led to a rise in interest rates and it is not clear when this trend will reverse. The conflict in Ukraine and rising tensions in the South China Sea have had an impact on commodity prices and the flow of global trade. Furthermore, economic growth in China has slowed because of Covid-related lockdowns and concerns in the real estate sector. The combination of these factors has led to pessimistic forecasts from industry for the number of vessels and therefore pilotage assignments in 2023

Assignment volumes

The Authority's assignment count is forecast to decrease from 2022 by 10% in 2023 to 11,251 assignments, and partially recover to 11,813 assignments in 2024.



The recent rise in inflation is of particular concern for the Authority as increases in CPI for Vancouver result in increases in contract rates payable to BCCP and in wages payable to employees under collective agreements. The annual rate of inflation at the end of August for Vancouver was 7.7% and the Authority has assumed an inflation rate of 8.5% when forecasting any increase in rates for contract pilot fees and wages for 2023. The contract with BCCP provides for an increase equal to CPI +1% in 2023, which has therefore been assumed to be an increase of 9.5% for 2023. Current collective agreements for River pilots, and launch, dispatch and administrative staff are due to expire early in 2023 and since the current agreements tie wage increases to increases in CPI, we have assumed similar language will be included in any new agreement.

Forecasted financial summary

| STATEMENT OF COMPREHENSIVE INCOME | | | | | | | |
|--|----------------|-----------------|-------------|--------------|-------------|-------------|-------------|
| (in thousands of dollars) | Actual | Forecast | Plan | | | | |
| For the year ended December 31 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| Total revenue | 84,618 | 102,726 | 106,172 | 117,296 | 125,028 | 130,646 | 135,287 |
| Total expenses | 86,499 | 103,453 | 105,276 | 117,728 | 124,951 | 130,404 | 134,631 |
| Comprehensive income (loss) | (1,881) | (727) | 896 | (432) | 77 | 242 | 656 |

Based on projected volumes, the Authority anticipates that expenses for 2023 will be \$105.3 million. This represents a 1.8% increase over 2022 and is primarily driven by contractual cost increases for contract pilots and employee wages, offset by volume decreases in the number of assignments.

In 2023, the Authority is also planning to invest \$3.6 million in capital projects.

The Authority’s cash position has declined significantly since the start of the pandemic and is 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. A ratio of at least 1.0 means we have sufficient liquid or near liquid assets to meet liabilities due within the next twelve months. We were fortunate in having sufficient cash to mitigate the impact of the pandemic and now need to begin to rebuild our cash position.

1.3 Proposed rates

To determine the rate changes required in 2023, 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 travel fees, reflect expected increases in CPI. Pilot boat fees are proposed to increase slightly above CPI, as existing margins have been squeezed by higher wages, repair and fuel costs.

The Authority also proposes to align service fees with the amount payable under its contract with BCCP when more than one pilot is requested for an assignment. The current pilotage fee for a second pilot is based only on hours, but the payout by the Authority under the BCCP contract includes not only hours, but also a unit fee. Furthermore, although a pilotage assignment lasting more than eight hours requires a second pilot in accordance with *General Pilotage Regulations* (s.25.15), a second pilot can also be requested by a vessel for assignments of eight hours or less. Therefore, the Authority is proposing to add 80% of the unit fee to the current service charge for each additional pilot for assignments normally undertaken in eight hours or less, except for tethered tankers, which are already charged a higher unit fee.

The proposed service charge for the administration of the *Pilotage Act* is based on the allocation of administration costs from Transport Canada to the Authority. This has increased for 2022/23 and, combined with a lower number of assignments forecast for 2023 over which to recover the costs, results in an unusually high increase per assignment.

Changes to pilotage charges, proposed to be effective January 1, 2023, are calculated for each service, as outlined in the following table:

| Category | Rate increase | New / Adjustment | Application methodology | Effect on customers for 2023 |
|---|-----------------|------------------|--------------------------------|------------------------------|
| Pilotage rates based on hourly or unit fees | 10.5% | Adjustment | All rates affected | \$6.9 million |
| Pilot boat fees | 9.75% | Adjustment | All rates affected | \$1.1 million |
| Second or additional pilot fees | 80% of unit fee | Adjustment | Assignments of 8 hours or less | \$0.3 million |
| Pilotage Act administration charge | 45.2% | Adjustment | Per assignment | \$0.2 million |
| Other fees | 8.5% | Adjustment | All rates affected | \$1.0 million |
| Total Effect | | | | \$9.5 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 and 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 January 1, 2023.

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 October 30, 2022.