



**UNITED STATES GREAT LAKES
SHIPPING ASSOCIATION**

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Mr. Paul M. Wasserman, Director – Office of Great Lakes Pilotage
United States Coast Guard
Commandant (G-PWM-2)
2100 Second Street – Room 1408
Washington, DC 20593-0001

VIA US Postal Service and FAX
202/372-1929

RE: Docket Number
USCG-2008-1126

Dear Paul:

This will refer to recently published April 24, 2009, NPRM announcing rates for Pilotage on the Lakes effective August 1, 2009, in the subject docket. I also refer to a letter sent recently to you from Ivan Lantz of The Shipping Federation of Canada requesting information regarding this current Rate Proposal as well as some related historical data. The United States Great Lakes Shipping Association supports those requests.

In addition to Ivan's requests, however, I would like to raise with you and other interested parties, questions concerning the rate development formula itself. In the NPRM, the document goes to considerable lengths to explain that these rates are set directly as the result of a formula which your Office is mandated to follow. While I think we all agree that the calculation under the formula is complicated, I have no reason not to believe that under your capable supervision, it is being applied. However, I suggest that this formula itself should be questioned, if only because of the surprising results it has produced over the last few years. It may be that some equitable balances and simplification might be very helpful.

In particular, the rates of increase have continued to bear little relationship to the economic conditions which have existed on the Lakes, especially with regard to the vessel operators the pilots serve. As you know, foreign flag operators which my member agents serve, have dramatically fewer reported calls to the Lakes, setting records for the lowest levels in decades. There are numerous reasons for this performance, but skyrocketing pilotage rates do



nothing to encourage a return to more robust business, and especially where other Lakes stakeholder businesses and services are also suffering.

I would like to propose a review of the formula elements to see if there can be achieved a rate making process which more simply and accurately reflects the economics of our industry. To start, please consider:

- 1) There appear to be many instances in the formula as explained in the NPRM where estimated or projected cost, manning and other performance levels are required to be used in determining the rate. It is suggested that these criteria be examined as to their direct relevance and weighting in the overall calculation.
- 2) Further to the matter of employing projections and estimates, is there adequate mechanism to provide for a subsequent "truing up" of those estimates and projections once the actual numbers are known? For example, in the NPRM it states in part, "If the annual review shows that pilotage rates are within a reasonable range of the base target pilot compensation set in the previous rulemaking, no adjustment to the rates will be initiated." (4/26/09 Fed.Reg., p.18670, Item IV) One reading of that sentence could mean that if the rates being examined were set on the basis of faulty input in the first place (projections, estimates, etc.,) without subsequent correction, then the basis of the comparison will compound that inaccuracy. In any event, it appears some more definitive means of employing actual numbers is needed once they are known. Any overages or shortfalls could be recaptured in the following rate making cycle.
- 3) Much of the input information employed appears to come from documents which are generated by the pilots whose wages and cost reimbursements are being determined. That appears to be a conflict which, while perhaps not totally unavoidable, could reasonably require more scrutiny beyond only relying upon financial information endorsed by the pilot's own paid auditors. Are there mechanisms for USCG to require such further independent review?



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4) As to all of the above, it is suggested that perhaps an independent economist/accountant or panel of such individuals take a look at this for us and make some recommendations as to how this process may be improved.

Paul, I am sure that as close to these matters as you are, you may have answers to some, if not all, of these comments and suggestions. I apologize if any of this misses the mark, but I hope you will respect the spirit in which this letter is written, and the concern that Ivan and I, along with our respective memberships, feel in the matter. And indeed, if some of this is off the mark, it only underscores the necessity of making this process more "transparent" as they say these days, and that those paying these rates can be comfortable with not only the final number, but also the quality of the input.

We all want professional, experienced and fail safe pilotage available, and recognize that there is some cost to obtaining and maintaining such value. We are only asking that such cost and pricing don't outpace the economic conditions for all the other players and contribute to the further weakening of the enterprise which provides all of us with our livelihood.

I trust that this will lead to some further dialogue.

Respectfully,

The United States Great Lakes Shipping Association

Stuart H. Theis,
Executive Director

CC: Pilot Districts 1, 2 and 3
Ivan Lantz, The Shipping Federation of Canada
Dennis Mahoney, USGLSA