ATLANTIC PILOTAGE AUTHORITY

DETAILS AND PRINCIPLES REGARDING PROPOSED REVISED SERVICE CHARGES
FEBRUARY 2021

GENERAL

Pursuant to Section 33.2 of the *Pilotage Act*, S.C. 1985, c. P-14, this document ("Details and Principles" or "Document") provides additional details to elaborate upon the Notice of Revised Service Charges dated November 14, 2020 (the "Notice") where the Atlantic Pilotage Authority's proposed revised charges are to become effective on February 15, 2021.

This Document includes a description of the proposal and the circumstances in which the charges will apply. In developing the charges, the Authority has observed all charging principles established under section 33.2 of the *Pilotage Act*. The financial information below is based on the current budgetary forecasts, and may be revised, following representations obtained under section 33.3.

Except for the revisions proposed in the Notice, all the existing charges, related terms, calculations, and methodology, as set out in earlier Announcements pertaining to charges remain in effect.

This Document consists of the following sections:

1) *A general overview of the Authority*
2) *Traffic outlook*
3) *Amounts to recover from customers*
4) *Proposed revision to service charge rates*
5) *Benefits and cost*
6) *Proposed revision to cash and investments*
7) *Justification of the proposal in relation to the charging principles*
8) *Consultation*
9) *Information regarding the Notice and on making representations to the Authority*

1. GENERAL OVERVIEW OF THE AUTHORITY

The Atlantic Pilotage Authority (the Authority) is a Government of Canada non-agent Crown Corporation established in 1972 pursuant to the *Pilotage Act*. The objective of the Authority is to establish, operate, maintain and administer in the interests of safety of navigation, an efficient pilotage service within the region set out in respect of the Authority. The Authority is tasked with achieving this objective whilst keeping with the following principles:

a. that pilotage services be provided in a manner that promotes and contributes to the safety of navigation, including the safety of the public and marine personnel, and that protects human health, property and the environment;
b. that pilotage services be provided in an efficient and cost-effective manner;
c. that risk management tools be used effectively and that evolving technologies be taken into consideration; and
d. that an Authority's pilotage charges be set at levels that allow the Authority to be financially self-sufficient.

The system of governance at the Authority is intended to make the corporation self-sustaining. The Authority is governed by a 7-member Board of Directors (the "Board"). The Governor in Council appoints the Chairperson of the Authority and the Minister of Transport appoints the other members of the Board for terms not exceeding four years.

The fundamental elements governing the mandate conferred on the Authority by the *Pilotage Act* include the exclusive right to provide pilotage services to ships in an area of water in which ships are subject to compulsory pilotage, the exclusive ability to set and collect charges for pilotage services provided or made available by the Authority or a contractor acting for the Authority, and the obligation by the Authority to provide these services.

When establishing a new charge for pilotage services or revising an existing charge, the Authority must follow the charging principles set out in section 33.2(1) of the *Pilotage Act*. These principles prescribe that, among other things, 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 requirements related to the provision of compulsory pilotage services. Pursuant to the charging principles, the Board approves the amount and timing of changes to customer service charges. The Board also approves the Authority's annual budget where the amounts to be recovered through customer service charges for the ensuing year are determined.

As noted, the Authority plans its operations to result in an annual financial position in which revenues do not exceed current and future financial requirements related to the provision of compulsory pilotage services. Financial requirements include:

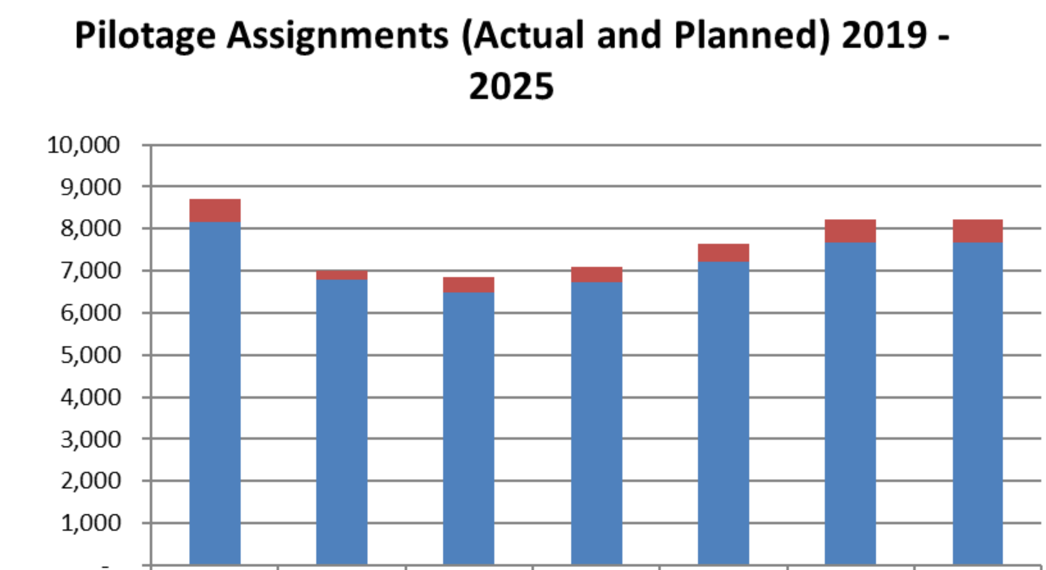
a. operations and maintenance costs;
b. management and administration costs;
c. debt servicing requirements and financial requirements arising out of contractual agreements relating to the borrowing of money;
d. capital costs and depreciation costs on capital assets;
e. financial requirements necessary for the Authority to maintain an appropriate credit rating;
f. tax liability;
g. payments to the Minister for the purpose of defraying the costs of the administration of this Act, including the development of regulations, and the enforcement of the *Pilotage Act*;
h. reasonable reserves for future expenditures and contingencies; and
i. other costs determined in accordance with accounting principles recommended by the Chartered Professional Accountants of Canada or its successor or assign.

The financial statements and Management's Discussion and Analysis (MD&A), issued quarterly and annually provide extensive information on the revenues and expenses of the Authority.

These documents are available at www.atlanticpilotage.com.

2. VOLUME OUTLOOK

Recent public announcements have been made regarding future activity at the Come-by-Chance Oil Refinery (CBC) in Placentia Bay, NL, putting the Authority's projected traffic levels in doubt. The chart below illustrates the annual assignments for 2019, the outlook for 2020, and the forecast included in the Corporate Plan for 2021-2025. Traffic generated by CBC is shown separately as this activity is not expected materialize based on current information. The loss of this activity has a material impact on the financial health of the area and for the Authority.



	2019 Actual	2020 Projected	2021 Budget	2022 Plan	2023 Plan	2024 Plan	2025 Plan
CBC Refinery	541	220	374	374	446	541	541
Other Traffic	8,153	6,779	6,487	6,715	7,210	7,675	7,675

3. FISCAL 2021 AMOUNTS TO RECOVER FROM CUSTOMERS

The reduced volume of shipping caused by the reduced operations at CBC is estimated to have a net negative impact on the Authority of approximately $1.6 million. This represents lost revenues of $2.0 million partially offset by operational savings of $434,000.

The Authority's capital program included expenditures of $16.0 million spread over the period from 2020 to 2022 and includes $8.6 million for two new pilot boats for Placentia Bay, NL. Due to current uncertainty regarding traffic, specifically in Placentia Bay, the new pilot boat project has been postponed until there is greater certainty of supporting revenues. For 2021, this decision will reduce expenses by approximately $262,000.

	Fiscal 2021 Plan	Come-by-Chance Impacts	Pilot Boat Project Postponed	Fiscal 2021 Forecast
REVENUES	**26,537**	**-2,044**	**-**	**24,493**
PILOT SALARIES, ETC	13,156	-190	-	12,966
PILOT BOATS	5,597	-160	-88	5,349
PILOT BOAT CREWS' REMUNERATION	2,078	-	-	2,078
STAFF SALARIES	2,038	-	-	2,038
AMORTIZATION	2,273	-	-65	2,208
TRANSPORTATION	835	-84	-	751
OTHER EXPENSES	761	-	-	761
PROFESSIONAL SERVICES	411	-	-	411
TRAINING	345	-	-	345
FINANCING COSTS	268	-	-109	159
TRANSPORT CANADA PAYMENTS	210	-	-	210
TOTAL OPERATING EXPENSES	**27,972**	**-434**	**-262**	**27,276**
TOTAL LOSS	**1,435**	**1,610**	**-262**	**2,783**

The Authority was budgeting a $1.4 million loss for 2021 due primarily to COVID-19 related traffic reductions. This assumed that the CBC facility would be operating as a refinery, but at less than full capacity. The loss of this remaining activity from CBC would put the Authority into a larger loss position and would mean a forecasted deficit of $2.8 million in 2021.

4. PROPOSED REVISION TO SERVICE CHARGE RATES

The Authority experienced declining traffic in a number of ports prior to the pandemic which was magnified by the economic impacts of COVID-19. Adjustments to service charge rates to address these impacts were previously announced on November 1, 2020 and did not include adjustments for Placentia Bay. As identified in section 3, in order for the Authority to maintain its financially self-sufficiency for the fiscal-year 2021, it would have to adjust its base rates further to offset the declining traffic in Placentia Bay. The financial goal associated with the increase is to partially offset the lost revenues caused by the decline in activity from CBC while maintaining the service levels and pilotage capacity for the users at their desired levels. Further rate adjustments or resource changes will be discussed at a later date.

a) Fiscal 2021 Base Rate Calculations

Effective February 15, 2021 there will be increases in port-by-port charges for one-way trips, thru trips, and movages in the compulsory port of Placentia Bay to offset decreased activity. The impact of these increases represents a 3.1% increase in total revenues for the Authority, or $734,000.

Port	Rate Increase	Annual Impact (‘000’s)	Budgeted Profit (Loss) without Increase (‘000’s)	Budgeted Profit (Loss) with Increase (‘000’s)	Comments
Placentia Bay, NL	13.50%	$734	($444)	$198	Partially offset reduced activity.

This revenue increase will be achieved by the implementing the following rate changes in the tables used to calculate pilotage service fees:

A. COMPULSORY PILOTAGE AREAS — ONE-WAY TRIPS (TABLE 1)

	Column 1	Column 2	Column 3	Column 4	Column 5
Item	Compulsory Pilotage Area	Minimum Charge ($)	Unit Charge ($/pilotage unit)	Basic Charge ($)	Budgeted Fuel Consumption (litres)
12	Placentia Bay, N.L.	3,397.00	6.97	2,563.00	600.00

B. COMPULSORY PILOTAGE AREAS — TRIPS THROUGH (TABLE 2)

	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Item	Compulsory Pilotage Area	Flat Charge, No Pilot Boat Used ($)	Flat Charge, Pilot Boat Used ($)	Unit Charge ($/pilotage unit)	Basic Charge ($)	Budgeted Fuel Consumption (litres)
12	Placentia Bay, N.L.	n/a	n/a	6.97	2,563.00	600.00

C. COMPULSORY PILOTAGE AREAS — MOVAGES (TABLE 3)

	Column 1	**Column 2**	**Column 3**	**Column 4**	**Column 5**	**Column 6**	**Column 7**	**Column 8**
Item	Compulsory Pilotage Area	Flat Charge ($)	Minimum Charge ($)	Unit Charge, No Pilot Boat Used ($/pilotage unit)	Basic Charge, No Pilot Boat Used ($)	Unit Charge, Pilot Boat Used ($/pilotage unit)	Basic Charge, Pilot Boat Used ($)	Budgeted Fuel Consumption (litres)
12	Placentia Bay, N.L.							
	(a) between Whiffen Head and Come By Chance terminals	n/a	1,697.00	3.49	1,281.00	n/a	n/a	n/a
	(b) any other area	n/a	3,056.00	5.58	2,051.00	6.26	2,306.00	600.00

5. BENEFITS AND COSTS

A cost-benefit analysis was conducted to determine the impact of the rate increase. It covers a 10-year period starting in the first year of the increase (2021 to 2030). According to the analysis, the increase in the regular rates for pilotage services will generate additional average annual revenues of $837,500 (in constant 2020 dollars) over the next 10 years and a total equivalent cost for the industry.

The deficit reduction additional charge was part of the *Announcement of Revised Service Charges* that was published on November 1, 2020. This proposed adjustment to regular charge rated will generate an increase in the average annual revenues associated with the additional charge of $33,000.

Higher pilotage charge rates will ensure the financial self-sustainability of the Authority as well as the uninterrupted provision of efficient and timely pilotage services.

Quantified impacts *(in Canadian dollars, 2020 price level / constant dollars)*

Cost-benefit statement

Discount rate: 7%		**Base Year 2021**	**2022**	**2023**	**Final Year 2030**	**Total (PV)**	**Average**
Costs	Regular Charges - Shipping industry	$734,000	$849,000	$849,000	$849,000	$5,856,000	$837,500
	Deficit Additional Charge - Shipping industry	$29,000	$34,000	$34,000	$0	$135,000	*$33,000
	Total – Shipping Industry	$763,000	$883,000	$883,000	$849,000	$5,991,000	$854,000
Net benefits						—	—

*Average over the five-year period it is effective.

B. Qualitative impacts

Shipping industry	Safe, efficient and timely pilotage services in navigable waters within the Authority's jurisdiction.
Atlantic Pilotage Authority	The Authority's financial self-sufficiency, activities are maintained as well as sustainability of assets.
Canadians	Safe shipping in the Atlantic Pilotage Area. Sustainability of the Atlantic Pilotage Authority will prevent layoffs and the associated consequences of unemployment.
Canadian importers and exporters	Potential for the shipping industry to pass on the cost of the increased charges to importers and exporters in the Atlantic Pilotage Area.

6. PROPOSED REVISION TO CASH AND INVESTMENTS

Charges are set based on the Authority's financial requirements, which consider projected volumes and planned expenditures. Since actual revenue and expenses will differ from these estimates, methods to accumulate the variance are required so that they may be considered when setting future charges and so that no going concern risks are unintentionally introduced into the Authority. There is also a need to absorb unpredictable factors – mainly fluctuations in traffic volumes resulting from unforeseen events (i.e. refinery closures or slowdowns, certificate issuance, lines leaving the Atlantic region).

When determining the level of charges, the Authority considers its current and future financial requirements. Among other things, the following are considered when establishing service charges:

- the Authority's financial requirements and the extent to which operating costs are variable;
- the expected upcoming capital costs and the extent to which borrowing is introduced; and
- the current and anticipated balance in the cash and investment account.

The primary measure of the Authority's financial self-sufficiency is its net cash flow position. The adjustments to the 2021 Plan for projected cash flow results are summarized below, as are the expected cash and savings balances:

	Fiscal 2021 Plan	Come-by-Chance Impacts	Rate Adjustment	Fiscal 2021 Forecast
Total Cash Beginning of the Year	**2,586**	**-**	**-**	**2,586**
Cash Provided by (used for) Operating Activities	**1,014**	**(1,413)**	**743**	**213**
Cash Flows Financing Activities				
Cash Provided from Borrowing	8,409	(8,000)	-	409
Loan and Lease Payments	(1,077)	121	-	(956)
Cash Provided by (used for) Financing Activities	**7,332**	**(7,879**	**-**	(547)
Cash (used for) Investing Activities – Capital Additions	**(8,918)**	**6,807**	**-**	**(2,111)**
Total Change in Cash	**(572)**	**(2,485)**	**763**	**(2,294)**
Total Cash End of Year				
Cash Balance and Reserve	128	(1,099)	763	(208)
Savings – Capital Asset Replacement	1,386	(1,386)		0
Savings – Future Severance Liabilities	500	-		500
Total Cash End of Year	**2,014**	**(2,485)**	**763**	**292**

The Authority has set the following goals to measure its long-term financial self-sufficiency:

Operating Cash Balance and Reserve – The Authority has a target based on current assets and current liabilities for its operating balance and reserve. Excess cash beyond this requirement is moved to savings for the purposes listed below.

Due to COVID-19 related declines, the reserve has been needed to fund the operation and the Authority expects it will use short-term financing at times for several years to fulfill its mandate. The current plan is to begin accumulating a reserve again by the end of 2024 and moving towards achieving the target by the end of 2026.

Savings for Capital Asset Replacement - The Authority has established a long-term fleet renewal strategy that includes an investment in new vessels that began in 2020. Also included in this strategy are mid-life refits and scheduled future construction.

The dedicated savings for this purpose will be exhausted as the Authority manages through the current crisis. The plan to build new vessels is postponed and is dependent on the long-term future of the oil refinery in Placentia Bay, NL. The plan assumed an increase in the previously anticipated long-term borrowing towards this project as the cash balances of the Authority have been negatively impacted by COVID-19. The Authority will not contribute future funds towards this dedicated savings purpose until the financial reserve targets are met.

Savings for Future Severance Liabilities - A part of the Authority's financial goals is to fund the future severance liabilities for employees who have this legacy benefit. There are years where larger payments are required that have short-term impact on cash flows. Having this fund allows for these payments to be made out of savings and not impact cash requirements funded by users in those years.

Due to cash shortfalls caused by COVID-19, savings in this fund will be used over the next few years make these severance payments and will be exhausted by the end of 2022. The Authority will not contribute future funds towards this dedicated savings purpose until the financial reserve targets are met.

The review and determination of an appropriate corporate contingency, in which cash and savings are included, is undertaken annually and will be an input in the setting of future charges.

7. JUSTIFICATION OF THE PROPOSAL IN RELATION TO THE CHARGING PRINCIPLES

The principles governing the establishment of new charges or the revision of existing charges by the Authority are set out in section 33.2 of the *Pilotage Act*. Each of the principles is presented below in italics, followed by an explanation of how the Notice complies with that principle.

33.2 (1) a. Pilotage charges shall be established and revised in accordance with an explicit methodology – that includes any conditions effecting the pilotage charges – that the Authority has established and published;

The methodology, which is reflected in this *Details and Principles* Document that was published on September 29, 2020, was placed on the Authority's website as required under s. 33.2 of the *Pilotage Act*. Based on the published information, any person subject to the Authority's charges can calculate the amount that would be payable for a given pilotage job.

33.2 (1) b. that pilotage charges be structured in a way that does not encourage the user to engage in practices that diminish safety for the purpose of avoiding a charge;

The Authority's charges are not structured in such a manner that safety may be impacted. Given the fact that pilotage services are mandatory in the compulsory waters where a risk assessment has determined that pilotage is required for safe transit; users are not given the ability to choose whether to use the services of a pilot in these areas. In addition, the structure of the Authority's charges is such that they cannot be avoided or diminished through adjusting operations in a manner that reduces safety.

33.2 (1) c. that pilotage charges be the same for Canadian users or ships and foreign users or ships;

There is no differentiation in the proposed revised charges for an assignment whether the vessel is domestic or foreign.

33.2 (1) d. that pilotage charges be set at levels that allow the Authority to be financially self-sufficient and be fair and reasonable;

The proposed charges are based on an allocation of operating and capital costs, that allow the Authority to fulfill its mandate and achieve its mission. The increases are fair and reasonable considering the increasing costs of business, the shorter-term impacts of COVID-19, and longer-term changes in anticipated traffic levels.

33.2 (1) e. that pilotage charges not be set at levels that, based on reasonable and prudent projections, would generate revenues exceeding the Authority's current and future financial requirements related to the provision of compulsory pilotage services;

The Authority's charges are set knowing that it will not be able to recover all of the Authority's 2021 annual expenses net of other revenues determined in accordance with International Financial Reporting Standards (IFRS) and the costs of complying with certain financial requirements, as described in detail in subsection 33.2 (2) of the *Pilotage Act*.

For fiscal 2021, the Authority is not expected to generate sufficient resources to initiate its capital replacement strategy without exhausting its operating reserves and requiring additional financing. The charges are set to return the Authority's finances to a more stable position over several years.

8. CONSULTATION

Consultations in various forms took place to discuss the impacts of reduced activity at the refinery on the remaining port users. Sessions were held either in-person or via video conference with representatives of the Whiffen Head Transshipment terminal, Canadian Maritime Agency LTD, Vale, and the Shipping Federation of Canada.

Most of the marine traffic in Placentia Bay is represented by this group of stakeholders. Alternatives to rate increases were presented and feedback from participants was encouraged. The alternatives to increased charge rates would be a reduction in pilot numbers and/or a reduction in the operating window for vessel movements. A reduction in pilotage services or resources was not desired by the users, with the full understanding that the alternative was the charge increases contained in this proposal.

9. INFORMATION REGARDING NOTICE AND ON MAKING REPRESENTATIONS TO THE AUTHORITY

This Details and Principles Document is available on-line and a copy may be downloaded from the Authority's website at https://www.atlanticpilotage.com/.

Information on the existing charges is also provided in the Authority's website. Additional copies of this Notice may be obtained by contacting the Authority:

In writing:	Chief Financial Officer Atlantic Pilotage Authority 1791 Barrington Street, Suite 1801 Halifax, NS B3J 3K9
By email:	bbradley@atlanticpilotage.com
By facsimile:	(902) 484-6347
By telephone	(902) 426-1964