NOTICE OF REVISED SERVICE CHARGES
SEPTEMBER 29, 2020

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 Atlantic Pilotage Authority's proposed revised charges to become effective January 1, 2021, 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*.

Persons interested in making representations to the Authority with regard to the proposals set out in this Notice may do so in writing to the address set out under Section 5 of this Notice, which must be received by the Authority not later than **October 30, 2020**.

Except for the revisions proposed in this Notice, all the existing charges and related terms and conditions, set out in the existing tariff notices pertaining to charges, remain in effect.

This Notice consists of four Sections:

(1) Proposed Revision to Service Charge Rates;
   a. Regular Rates
   b. Deficit Additional Charge;

(2) Proposed Implementation of the Proposed Revised Service Charges;

(3) Reestablishment of Current Charges; and

(4) Definitions and Calculations

1. **PROPOSED REVISION TO SERVICE CHARGE RATES**

1.1 Summary

The Authority was experiencing declining traffic in a number of ports that began before the novel coronavirus pandemic (or “COVID-19”) impacted the world economy. In order for the Authority to maintain its financial self-sufficiency in fiscal 2021, it will adjust its base rates to offset pre-pandemic declining traffic and implement a deficit reduction additional charge to recover a portion of the expected COVID-19 losses over the medium-term outlook. The financial goals associated with the increases are as follows:

- Adjust regular tariffs in ports where:
  - Pre-pandemic traffic levels were falling or are expected to fall.
  - Investments are being made in the port that are increasing costs to improve the effectiveness and reliability of the service.
- Adjust tariffs in ports serviced by entrepreneurial pilots to assure there are licenced pilots available to provide the service.
- Absorb the COVID-19 losses by using short-term debt. Implement a deficit reduction additional charge to recover the portion of these losses, not financed through reserves, over the medium term.

The pandemic and related recession has made the Authority’s modelling of assignments for 2021 more difficult in several areas and sectors. Even though there is evidence of material declines in activity in some ports that was unrelated to COVID-19, the Authority has capped the base rate increases at 3% for 2021.

1.2 Background

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 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.

In March 2020, the World Health Organization declared a global pandemic as a result of COVID-19. The pandemic and resulting global economic contraction has had an unprecedented negative impact on traffic for the Authority. The reduced demand for oil products and many other goods have impacted ship movements and reduced revenues in all of the ports and districts in the Atlantic region. The largest impact on the Authority has been the cancellation of the cruise season. The Authority had over 1,000 cruise assignments in 2019 that generated

$3.0 million in pilotage revenue. This was scheduled to increase in 2020 and beyond. The negative impacts of COVID-19 are expected to continue through 2021.

Forecasted pilotage service revenue for the current fiscal year is $24.9 million, which represents a shortfall of $5.4 million (17.9%) from the Authority's approved fiscal 2020 budget. The forecast for 2021 revenues for the fiscal year beginning on January 1, 2021, before giving effect to the proposed pilotage service charge revision, is $25.0 million, which represents a 0.4% increase from current year forecast revenue, and a 17.5% shortfall from the current year budget.

The Authority is proposing this rate action only after having actively pursued all available alternatives, including government assistance. Pursuant to section 36.01 of the *Pilotage Act*, "No payment to an Authority may be made under an appropriation by Parliament to enable the Authority to discharge an obligation or liability. This section applies notwithstanding any authority given under any other Act, other than an authority given under the Emergencies Act or any other Act in respect of emergencies". There has been no such authority passed.

In evaluating other actions that could be taken, the provision of safe and efficient service is always a primary concern. The Authority must establish, operate, maintain and administer, in the interests of safety of navigation, an efficient pilotage service within the region. The localized nature of the pilotage operation means that resources have to be maintained in each port or area to provide the service in the short-term and to be available when traffic rebounds. The extended training period and high related costs do not allow for pilot numbers to be reduced for a short-term reduction in activity. Capital investments will be evaluated regarding their critical need and whether they can be deferred or delayed. These considerations would not have a material impact on this rate increase.

Despite reduced variable expenses caused by a reduction in vessel movements, cash inflows experienced by the Authority will not be sufficient to offset regular cash outflows. Most of the Authority's costs are fixed or cannot be reduced without severely impacting service levels and fulfilment of its mandate. Despite large variations in levels of marine traffic, the Authority is mandated to provide for the safe movement of marine vessels as an essential service, even in times of a global pandemic. As a result, the Authority is experiencing significant monthly net cash outflows that are expected to continue through 2021. Net cash outflows for the current fiscal year are forecast at $5.4 million, and for the 2021 fiscal year at $3.2 million, before giving effect to the proposed service charge revisions and additional borrowings. These amounts, which total $8.6 million, would put the Authority at risk of exceeding its available lines of credit at times within 2021. The Authority is addressing this liquidity issue through a combination of increased customer service charge revenues and additional debt financing through increased short-term borrowing authorities and an increase in long-term capital loans.

1.3 Proposed Customer Service Charge Rate Revisions Effective January 1, 2021

For regular rates effective January 1, 2021, the Authority proposes revisions to increase revenue by $535,000, based on reasonable and prudent projections of forecasted piloted marine traffic for its 2021 fiscal year. This increase will leave the Authority in a loss position due to COVID-19 related traffic decline. The proposed revisions are as follows:

Port	Tariff Increase	Annual Impact (‘000’s)	Port	Tariff Increase	Annual Impact (‘000’s)
Strait of Canso, NS	3.00%	$61	Charlottetown, PE	2.00%	$3
Bay of Exploits, NL	3.00%	$6	Confederation Bridge, PE	2.00%	$3
Stephenville, NL	3.00%	$3	Miramichi, NB	2.00%	$1
Pugwash, NS	2.00%	$2	Restigouche, NB	2.00%	$1
St. John’s, NL	3.00%	$27	Voisey’s Bay, NL	20%	$19
Holyrood, NL	3.00%	$2	Saint John, NB	3.00%	$136
Halifax, NS	3.00%	$159	Bras d’Or Lakes, NS	2.00%	$1
Sydney, NS	3.00%	$15	Coastal areas	3.00%	$1

- Stephenville, NL – a charge for the use of a pilot boat, equal to the actual cost of hiring a pilot boat will apply to each movement. The pilot boat used to be charged directly through the port authority in the area but is now the responsibility of the Authority. The Authority did not have this captured in its previous tariffs for the area. The current rate being charged to the Authority is $1,500 per assignment.

- Non-Compulsory Areas - there will be increases in port-by-port tariffs for one-way trips and movages for all non-compulsory ports. The Authority provides pilots for these areas upon request if there are licenced pilots available. There is no requirement to do so, therefore the tariff must be set at a rate that attracts these entrepreneurial pilots to accept these requests when desired by industry. The unit charge for a one-way trip will be increased by 3.0%, while the minimum charge for these trips will be set at $800. The movage charge will be a flat fee of $680.

- Other Charges – There are numerous ancillary charges that have not been changed in the previous 10-year period. These charges include: Oil rigs, Locks, Trial trips, Compass adjustments, Dry dock, Detention on board ship, Detention on shore, In-Transit, Overcarriage, Safety watches, and Cancellations. All of these charges will be increased by approximately 10%. The annual impact of these changes is estimated to be approximately $20,000.

1.4 Proposed Customer Service Charge Rate Revisions Effective January 1, 2021

For a period of five years that begins on January 1, 2021, an additional of 4.0% will be payable on each flat charge, minimum charge, unit charge, basic charge and cancellation charge payable to the Authority for pilotage service provided in the following pilotage areas:

- Bay of Exploits (Botwood and Lewisporte), N.L;
- Holyrood, N.L;

- Humber Arm, N.L;
- Placentia Bay, N.L;
- St. John's, N.L;
- Stephenville, N.L;
- Cape Breton (Zone A, Sydney), N.S;
- Cape Breton (Zone B, Bras d'Or Lake), N.S;
- Cape Breton (Zones C and D, Strait of Canso), N.S;
- Halifax, N.S; and
- Saint John, N.B.

This additional charge is intended to stabilize the Authority's available cash balance for operating by the end of the fifth year. The Authority has lost approximately 20% of its activity and related revenues to the COVID-19 declines. The purpose of this charge will be to partially recover these lost revenues with the balance supplied by the Authority's reserves. Based on reasonable and prudent projections of forecasted piloted marine traffic for the 2021 fiscal year, this charge is expected to generate $905,000 in revenues for the Authority during the budget year. This charge will be reviewed annually to assess whether it is required to continue to its expiration date.

2. PROPOSED IMPLEMENTATION OF THE PROPOSED REVISED SERVICE CHARGES

The Authority acknowledges the tremendous challenges currently faced by its stakeholders within the marine industry. It also acknowledges that the impacts of the proposed service charge increases are significant and represent an additional financial challenge to its stakeholders at a time when they are also experiencing exceptionally difficult circumstances. The proposal does not represent an immediate recovery of the revenue shortfall but expects the Authority to use short-term financing to defer the cost of this recovery over four years. These increases are, however, necessary for the Authority to continue to fulfill its mandate and are being proposed after preliminary discussion with the stakeholders regarding impacts and alternatives. All charges will be effective on January 1, 2021.

3. REESTABLISHING CURRENT SERVICE CHARGES

With recent changes to the *Pilotage Act*, the Authority must include the rates that are not changing within this notice. Once these rates are announced, the Atlantic Pilotage Tariff Regulations will be rescinded and all charges will reside in the Authority's Customer Guide to Charges and be available on the Authority's website at https://www.atlanticpilotage.com/.

All items not set out above as a new rate will continue as described in the current regulations. The charges that will migrate without language or rate adjustments include the following:

- Dead Ships
- Pilot Boats, except for the addition of Stephenville, NL mentioned above
- Detention on Oil Rigs
- Travel and other Expenses of Pilots
- Tugs and Barges
- Charges per Pilot

4. DEFINITIONS AND CALCULATIONS

The definitions and calculations included in the Atlantic Pilotage Tariff Regulations will also be rescinded and those definitions and calculations will be found in the Authority's Customer Guide to Charges to be available on the Authority's website at https://www.atlanticpilotage.com/.

These items that are currently captured in the Interpretation section of the Atlantic Pilotage Tariff Regulations and all other calculations and descriptions not specifically addressed above will be transferred essentially without change to the Authority's Customer Guide to Charges.

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

Further details of this proposal, including a justification for the proposal in relation to the charging principles, are provided in a document entitled *Details and Principles Regarding Proposed Revised Service Charges* (Details and Principles) which is available on the Authority's website at https://www.atlanticpilotage.com/.

Information on the existing charges is available at the Authority's website and the Justice Laws Website at https://laws-lois.justice.gc.ca/eng/regulations/SOR-95-586/FullText.html.

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) 484-6349
By telephone (902) 426-1964

Pursuant to Section 33.3 of the *Pilotage Act*, persons interested in making representations in writing to the Authority with regard to this Notice may do so in writing to the following address:

In writing: Atlantic Pilotage Authority
1791 Barrington Street, Suite 1801
Halifax, NS B3J 3K9
Attention: Chief Financial Officer

By facsimile: (902) 484-6349

Note: Representations must be received by the Authority not later than the close of business on October 30, 2020. Any person making written representations must include a summary of those representations. This summary may be made public by the Authority.

Any person who makes such a written representation will have an opportunity to file a Notice of Objection related to the proposal with the Canadian Transportation Agency.

Caution Concerning Forward-looking Information

This document contains certain statements about the Atlantic Pilotage Authority's future expectations. These statements are generally identified by words like "anticipate", "plan", "budget", "believe", "intend", "expect", "estimate", "approximate" and the like, as well as future or conditional verbs such as "will", "should", "would" and "could", or negative versions thereof. Because forward-looking statements involve future risks and uncertainties, actual results may be quite different from those expressed or implied in these statements. Examples include the pandemic, commodity price changes, natural disasters, weather patterns, environmental concerns, cyber security attacks, labour negotiations, arbitrations, workforce recruitment, training and retention, general marine industry conditions and trends, capital market and economic conditions, the ability to collect customer service charges, and changes in interest rates. Some of these risks and uncertainties are explained under "Risk Management" in our fiscal 2019 Annual Report. The forward-looking statements contained in this document represent our expectations as of September 29, 2020 and are subject to change after this date. Readers of this document are cautioned not to place undue reliance on any forward-looking statement. We disclaim any intention or obligation to update or revise any forward-looking statements included in this document whether as a result of new information, future events or for any other reason.