
NOTICE OF REVISED PILOTAGE CHARGES

February 8th, 2021



Administration de pilotage des Laurentides
Laurentian Pilotage Authority

Canada



GENERAL

Pursuant to [section 33.3 of the Pilotage Act \(R.S.C., 1985, c. P-14\)](#) (the "**Act**"), the following document provides notice (the "**Notice**") of the Laurentian Pilotage Authority's (the "**Authority**") revised pilotage charges, which will come into effect on **May 12th, 2021**, except as otherwise noted. This Notice includes a description of the proposal, including a justification in relation to revising the pilotage charges, and the circumstances in which the charges will apply. In revising the pilotage charges, the Authority has observed all charging principles established under [section 33.2 of the Act](#).

A document setting out additional details in relation to this proposal, including a justification in relation to the charging principles revised under [section 33.2 of the Act](#), is available on the Authority's website.

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 2](#) of this Notice, by no later than the end of the Notice period of **March 11, 2021**. Any person making written representations is to 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.

The Authority applies pilotage charges for services that the Authority provides or makes available in relation to compulsory pilotage under [section 33\(1\) of the Act](#).






This Notice consists of four sections:

1. [Proposed revision of pilotage charges rates](#)
2. [Implementation of the proposed pilotage charges](#)
3. [Proposed revisions to terms and conditions](#)
4. [Information regarding the Notice and on making representations to the Authority](#)

1. PROPOSED REVISION OF PILOTAGE CHARGES RATES

Background

When establishing a new charge for pilotage services or revising an existing pilotage charge, the Authority must comply with the charging principles set out in [section 33.2 of the Act](#). These prescribe the following:

-  that pilotage charges be established and revised in accordance with an explicit methodology — that includes any conditions affecting the pilotage charges — that the Authority has established and published;
-  that pilotage charges be structured in a way that does not encourage a user to engage in practices that diminish safety for the purpose of avoiding a charge;
-  that pilotage charges be the same for Canadian users or ships and foreign users or ships;
-  that pilotage charges be set at levels that allow the Authority to be financially self-sufficient and be fair and reasonable; and
-  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.

Pursuant to the charging principles, the Authority's Board of Directors (the "**Board**") approves the amount and timing of changes to pilotage charges. The Board also approves the Authority's annual budget pursuant to which the amounts to be recovered through pilotage charges for the ensuing year are determined. The Board also takes the Authority's five-year corporate plan, including the capital program contained therein, into account.

Traffic and Assignment Volumes

Current revenue versus budgeted revenue (2020)

Once the financial results for the year 2020 were known, the Authority determined that its revenues were below the approved budgeted amount by 18.5% for that same year. Pilotage revenues alone represent a decrease of \$20.4M. This is due to the decrease in assignments following the impacts of the COVID-19 pandemic. This resulted in an overall financial loss for 2020 of \$ 2.3M for the Authority.

The trend as compared to the previous year

The number of assignments in recent years was up 12% in 2019 compared to 2015. Assignments for the year 2020 have been strongly affected by the consequences of the pandemic. The actual decrease in assignments compared to 2019 and based on initial projections for 2020 is 14%, representing a total of 21,215 assignments achieved.

Main sources of information and traffic outlook

In order to establish the financial forecasts for future years, the Authority relies on the information obtained from its market analysis carried out throughout the year. This information is then compared with historical traffic data and new trends that surfaced in the past year.

As part of the budget approved by the Board and the Treasury Board of Canada, the forecast for the year 2021 is based on actual data for the first three quarters of 2020, but with a clear understanding of the outlook for the last quarter of 2020 and the unique context of declining pilotage revenues. The forecast takes into account various assumptions such as a temporary continuation of a declining number of assignments and a gradual recovery of the economy during the year 2021.

The recent revision of the forecasts based on the economic outlook of the industry and the Authority's various analyses, results in a decrease in traffic as originally budgeted. According to various sources, traffic estimates must be reduced, particularly for bulk carriers and oil tankers. It is important to note that the Administration is in constant contact with its industry partners to ensure that this information is kept up to date. According to these sources, a gradual recovery starting in the spring is foreseen by the various stakeholders. In terms of assignments, an increase of 9% is estimated compared to 2020.

Cost Structure

The Authority's costs associated with the provision of pilotage services are dictated mainly by the Authority's contractual obligations and vary depending on the level of assignments and volume of traffic. The costs incurred by the Authority are broken down as follows on an approximate basis:

| Cost categories | Proportion of the total costs | Specificities |
|-------------------------------|--------------------------------------|--|
| Pilotage fees | 78.9% | Governed by contract and varies depending on the pilotage revenues |
| Pilot Boats Services | 10.2% | Mainly governed by contract and varies depending on the pilotage revenues |
| Payroll | 5.9% | Mainly governed by collective agreements |
| Amortization and rent | 2.3% | |
| Other administrative expenses | 2.7% | Include the administration costs of the Act, which alone represent 0.8% of expenses. |



Forecasted Financial Summary

Based on projected traffic volumes, the Authority anticipates that expenses for fiscal 2021 will be \$102.1M. This represents a 6.4% decrease over approved budgeted projections for the same year. This decrease is directly linked to the loss of pilotage revenues caused by the COVID-19 pandemic. It is important to note that because of the operating mode specific to the Authority, few additional costs directly related to the pandemic were incurred.

In terms of revenues, the Authority forecasts pilotage revenues of \$88.7M, contributing to total revenues of \$101.6M.

The Authority plans to maintain its capital expenditure program, which will require up to \$7.4M in expenditures during fiscal 2021, mainly related to the purchase of a pilot boat, the acquisition of PPUs for the Mid St. Lawrence Pilots Corporation, and the repair of the wood berthing dock at Les Escoumins. The capital program for the next five years includes investments in pilot-boat services in the order of \$6.1M. It should also be noted that the PPUs for the pilots must be renewed every four years to ensure that they remain an efficient tool that is in keeping with the safety and efficiency of navigation. The Authority has the necessary reserves to cover these capital investments to support a safe, effective and efficient pilotage service. The reserves also help ensure the stability of pilotage charges for the foreseeable future.

The Authority intends to keep the cash and the reserve account at a reasonable level to meet current and future expenditures and contingencies, as required by the *Act*.

Proposed Rates

In order to determine the revision of pilotage charges required in fiscal 2021, the forecasted revenues and cash flow generation is compared with 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.

This table presents the effect of the revised pilotage charges for the year 2021 compared to what is currently in effect since December 21, 2020. The pilotage charges that will come into effect on **May 12, 2021** include:

| Category | Pilotage charges | New / Adjustment | Application Methodology | Effect on Customers |
|---|------------------|------------------|-------------------------|---------------------------------|
| Base Rate | 3% increase | Adjustment | All rates affected | \$2,55M increase |
| Administration of the Act | 31.4% decrease | Adjustment | Per assignment charge | \$12.45 decrease per assignment |
| Temporary charge applicable until December 31, 2021 - Annualization of the increase | \$54.96 increase | New | Per assignment charge | \$989K |

The observed CPI for 2020 year-end is of 1%. It is important to note that most of the Authority's costs are governed by contracts and agreements which anticipate increases greater than the current CPI. These increases are taken into account in the analysis supporting the revision of pilotage charges for 2021.

For 2021, the CPI forecast by the various major Canadian financial institutions averages 2.4%. The anticipated increase in pilotage charges therefore exceeds by 0.6% the CPI forecast for that same year by the various economic sources. It is important to remember that the Authority's gross profit margin is very low, at 9.6% expected for 2021. However, the administrative and operating expenses to be borne by the Authority, which are mostly governed by agreements, leases, and contracts of service, are 10.9%. The Authority takes the risk of assuming a portion of the loss resulting from the 2021 revenue decline in traffic but must ensure the financing of its operating expenses for the adequate maintenance of its services in order to preserve the proper conduct of its operations and meet its legislative mandate.

The pilotage charge to offset the new administrative charges levied on the Authority under [section 37.1 of the Act](#) since 2020 has been revised down to \$27.19 and is expected to generate \$768K in revenue in fiscal year 2021 and the first quarter of 2022. This section allows the Minister of Transport to levy charges on the authorities for costs associated with the administration of the Act. No margin is generated for the Authority from this charge.

Given the economic, market and traffic conditions resulting from the pandemic, the Authority has chosen to wait until the completion of 2020 before finalizing its review of its proposed revised pilotage charges in order to better assess the situation and determine the increases required to fund its operations. The result of this exercise indicates that an annual increase of 3% for 2021 is required for the charges. However, this approach, where the Authority ensures that it has the latest information on market conditions before revising the charges, means that the proposed increase cannot take effect on January 1. Instead, the increase will be effective May 12, 2021.

This will result in a variance in the revenues generated by pilotage charges to fund the Authority's operations. The Authority estimates that this will result in a shortfall of \$989K in revenues in 2021. In order not to generate a greater loss than the \$514K already forecast and assumed via the Authority's reserves for 2021, the Authority will apply a temporary charge, on each assignment, equivalent to \$54.96. This amount represents the distribution of \$989K of revenue to be recovered over the number of assignments planned for the months of May to December 2021 and will end on December 31, 2021.

Since pilot detentions are an element that affects the availability of pilots and thus diminishes the effectiveness and efficiency of the pilotage service, the Authority has decided to increase the rate aimed at reducing detentions. Thus, for the first hour of detention, the charge will be at a single rate and for the second hour at \$419.20, unless the detention falls under one of the listed exceptions.

Charges pertaining to transshipment services, such as pilot boat services to embark or disembark a pilot, including at a pilot boarding station, are applied and charged in an amount equal to the cost incurred by the Authority to provide the service. This applies whether the pilot boat or service is owned or operated by the Authority or provided by a third party on behalf of the Authority. Those pilotage charges include all cost incurred by the Authority, including but not limited to lease or rental fees if applicable.

Additional information regarding pilotage charges including supporting calculations is provided in the document "Details and Principles Regarding Proposed Revision of Pilotage Charges" ("**Details and Principles**"). Refer to [section 4](#) for information on how to obtain a copy of this document.

2. IMPLEMENTATION OF THE REVISED PILOTAGE CHARGES

The pilotage charges proposed for 2021 are not intended to recover losses incurred by the Authority due to the impacts of the pandemic. These losses, totaling \$2.8M (\$2.3M loss in 2020 and \$514K loss expected in 2021), have been absorbed by the portion of the reserves set aside to deal with the risks that could affect the Authority. The proposed pilotage charges revision is limited to the recovery of the operating costs of the service for the corresponding year. Since the Authority's reserves were established to finance current and future projects, no profit margin is expected in this regard for fiscal year 2021.

3. PROPOSED REVISIONS TO TERMS AND CONDITIONS

With the proposed revisions of pilotage charges detailed in this Notice, all terms and conditions of the current pilotage charges remain unchanged and in accordance with the *Act*.



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

This Notice is available on-line and a copy may be downloaded from the Authority's website (<https://www.pilotagestlaurent.gc.ca/en/index.html>). 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, which are available on the Authority's website.

Additional copies of this Notice or the Details and Principles can also be obtained by request at the following address:

In writing: Chief Financial Officer
Laurentian Pilotage Authority
999 De Maisonneuve Blvd. West, Suite 1410
Montreal, Quebec H3A 3L4

By email: josee.leroux@apl.gc.ca
By telephone (514) 283-6320 ext. 208

Pursuant to [section 33.3 of the 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 Act](#), persons interested in making representations in writing to the Authority regarding the [section 1](#) of this Notice may do so in writing to the following address:

Chief Financial Officer
Laurentian Pilotage Authority
999 De Maisonneuve Blvd. West, Suite 1410
Montreal, Quebec H3A 3L4

By email: josee.leroux@apl.gc.ca

Note: Representations must be received by the Authority not later than the close of business on March 11, 2021.