

BEFORE THE OREGON BOARD OF MARITIME PILOTS

BP 13

In the Matter of

COOS BAY / YAQUINA BAY
PILOTS ASSOCIATION

Petition for a Change in Pilotage Rates.

WRITTEN TESTIMONY OF CAPTAIN
GEORGE WALES

My name is George Wales. If called to testify at the hearing in the matter of the petition of the Coos Bay / Yaquina Bay Pilots Association for a change in pilotage rates, I would testify as follows:

1. QUESTION: What is your professional background?

ANSWER: I am the president of the Coos Bay / Yaquina Bay Pilots Association. I am a graduate of North Bend high school in North Bend, Oregon. I received an honorable discharge from the United States Navy in 1991. I hold both a 1600-ton master's license and a master of towing vessels license with the federal unlimited pilotage endorsement for Coos Bay and Yaquina Bay, both issued by the United States Coast Guard. I also hold an unlimited state pilot's license for the Coos Bay bar pilotage ground issued by the State of Oregon. I was accepted for training on the Coos Bay Pilotage Ground in 2007 and have been piloting in Coos Bay ever since. I am also the president of the Coos Bay Pilot Boat Company.

2. QUESTION: Describe the nature of piloting in Coos Bay, including difficulty, inconvenience, the professional skill and experience required, and the time necessary to perform the service.

ANSWER: Piloting in Coos Bay is very challenging. Coos Bay pilots board and depart vessels in the open ocean, often in difficult sea and weather conditions, at all hours of the day

and night. We guide vessels in and out of the bay along a narrow channel that is in some places only 300-feet wide. For context, this is only half the width of the 600-foot wide maintained navigation channel in the Columbia River. The bay itself is divided into a lower bay and an upper bay. To access the upper bay, ships must pass beneath two bridges that often are only a few feet wider than the vessels themselves. Vessels are docked at any of several cargo berths in the bay. Most vessels will discharge or load cargo at only one berth, although on rare occasion a vessel will shift to a second berth. The typical assignment for an inbound vessel from pilot office to ocean meet up to cargo berth and back to the office takes three to five hours. The typical assignment for an outbound vessel from office to cargo berth to ocean and back to office takes about the same time. As a Coos Bay pilot, I must regularly monitor sea and weather conditions at the Coos Bay bar.

A factor that has further complicated pilotage in Coos Bay in recent years is deterioration of the jetties. Since I have been a Coos Bay pilot, the North Jetty has lost about 450-feet of its length. As a result, ships are exposed to more cross-current. Worse, this occurs in the area where the maintained channel decreases in width, so the current must be countered where there is little room for error, especially when piloting the larger chip ships.

Unlike the other Oregon pilotage groups, CBP has no administrative pilot. Many administrative functions are performed by Derek Davisson, whose title is office manager, under my supervision as CBP's president. Among the administrative tasks that Mr. Davisson and I perform are billing, collections, payment of expenses, fatigue reporting, continuing education reporting, drug and alcohol test reporting, and associated record keeping. In addition, I am a member of the Oregon Board of Maritime Pilots and of the Coos Bay Harbor Safety Committee and regularly attend meetings. I also frequently communicate with the United States Coast

Guard, the United States Army Corps of Engineers, and the North Bend airport about their operations that may affect piloting in Coos Bay. This includes a wide variety of issues, including, maintenance dredging in the maintained shipping channel, monitoring and consulting with respect to aids to navigation, and monitoring state and federal legislation affecting shipping and maritime commerce. I also meet and speak with representatives of the port, cargo terminals and vessel agents frequently.

Every state-licensed pilot must have an annual physical examination (OAR 856-016-0010), and maintain his or her federal license as a condition to renewing a state license (OAR 856-016-0010). A component of federal licensure is medical certification that includes physical and psychological requirements. Every state-licensed pilot must complete one day of personal safety training annually (OAR 856-016-0001(2)) and ten days of continuing professional development training every 63 months (OAR 856-016-0001(1)), including a five-day manned model course which, because no approved manned model facilities are available in Oregon, requires travel out of state.

Since 2018, one of my most important tasks has been to train Captain Timothy Petrusha to qualify for his unlimited state pilot's license. I have personally supervised Captain Petrusha as he has piloted more than 100 vessels in and out of Coos Bay. Another pilot, Captain Steve Woods, has also been training Captain Petrusha. Captain Woods, who was at one time a member of CBP, was instrumental in my own training as well. Captain Woods is retiring from the Columbia River Pilots in October 2021. We have asked him to maintain his Coos Bay pilot's license and necessary insurances at CBP's expense until Captain Petrusha achieves his unlimited status in Coos Bay and I achieve my unlimited status in Yaquina Bay, both of which are expected to occur in 2021.

This aspect of piloting, the business aspect, contributes to the difficulty of providing pilotage in Coos Bay. Under state law, and as a matter of practicality, a pilot must provide a means for boarding and departing vessels. In Coos Bay, we use the Coos Bay Pilot Boat Company. Coos Bay Pilot Boat Company owns two tugboats, the Coos Bay and the North Bend. Both are older vessels, and require regular maintenance and occasional upgrades. Pilot Boat Company uses both boats for occasional towing jobs, but by far the largest customer of Pilot Boat Company is the Coos Bay Pilots. Pilot Boat Company has a high fixed overhead compared to the Coos Bay Pilots, and a significant share of the earnings of the Coos Bay Pilots are dedicated to paying Pilot Boat Company bills. Pilot Boat Company in turn uses the income to meet both its fixed and variable costs. Management of Pilot Boat Company is really a component of being a member of CBP.

Taken together, all of these aspects—monitoring vessel arrivals, monitoring weather and sea conditions, maintaining a schedule, riding the pilot launch, piloting vessels, invoicing, collections, paying expenses, preparing reports to the Board, operating the Pilot Boat Company, working closely with ship agents and operators, tug operators, terminal operators, and the Port of Coos Bay, and training future pilots, together mean the profession of Coos Bay Pilot is extremely challenging and time consuming.

3. QUESTION: Exhibit CBP4 is a video generally describing piloting in Coos Bay. What is the source of the video, when was it made, and what elements of piloting in Coos Bay have changed since the video was made?

ANSWER: The video, CBP4, was prepared in 1987 by CBP. The pilots featured are Captain Gene Woods, the father of Captain Steve Woods, and Captain Steve Sweet. Most of the main elements of piloting shown in the video remain true today: Pilots board in the ocean, cross

the bar, and guide vessels through a narrow channel. So although it was made many years ago, the video remains a largely accurate portrayal of the challenges of piloting in Coos Bay.

4. QUESTION: One of the factors for consideration in this rate proceeding is the supply of and demand for pilotage services. Describe the demand for pilotage in Coos Bay.

ANSWER: CBP keeps a log of piloted vessels. We also prepare invoices for each piloted vessel. From these data sets we have prepared a table of piloting activity since the 2009 rate case through June 2021:

	Total	Total	Avg GRT
	Vessels	GRT	Per Vsl
2010	47	1,551,452	33,010
2011	69	1,998,984	28,971
2012	52	1,592,824	30,631
2013	115	1,862,900	16,199
2014	49	1,703,869	34,773
2015	70	1,686,873	24,098
2016	84	1,873,944	22,309
2017	121	1,882,540	15,558
2018	134	2,031,987	15,164
2019	130	1,950,303	15,002
2020	67	1,412,454	21,081
2021 (thru June)	26	1,020,630	39,255
Average	80.3	1,714,063	21,337

Table 1: Vessels Served January 2010 – June 2021

Table 1, which I believe to be accurate, shows that the demand for piloting service fluctuates a great deal year-to-year. (Note that if 2021 is annualized to 52 vessels rather than 26, the average would increase from 80.3 to 82.5.)

In my time as a Coos Bay pilot, the number of pilots has changed very little. From 2010 through 2018, there were two CBP pilots, Captain Charles Yates and myself. There was a third unlimited pilot who was not a member of CBP, Captain Steve Woods. Most of his piloting work during this period was done on the Columbia and Willamette River Pilotage Grounds. He only

pilots in Coos Bay and Yaquina Bay when CBP needs help to cover a job, or to ensure sufficient recency to maintain his licenses.

In 2018, Capt. Yates suffered a disabling hip injury and stopped piloting. From March 2018 through September 2021, I have been the sole unlimited pilot member of CBP. Captain Petrusha began training in October 2019, and is expected to receive his unlimited license and to become a full member of CBP in October 2021.

5. QUESTION: Describe the demand for piloting service in Yaquina Bay.

ANSWER: There has been very little demand for a state pilot in Yaquina Bay for several years, which is why it takes so long to obtain an unlimited state pilots license for the Yaquina Bay bar pilotage ground. Only one vessel, the C/S IT INTEGRITY, a Canadian-flag cable ship of 2,244 GRT, has required a state-licensed pilot in Yaquina Bay in 2021. It called twice in the month of August and generated four assignments, all of which were performed by Captain Woods. Neither of these calls were included in our 2021 forecast.

Because demand is so light, there is no pilot launch in Yaquina Bay and no ship assist tug. When pilotage is required in Yaquina Bay, we typically take one of the Coos Bay Pilot Boat Company tugs to provide the launch service.

6. QUESTION: Another factor for consideration in a rate proceeding is the public interest in maintaining prompt, efficient, economical, and reliable pilotage service. Please discuss these considerations in Coos Bay and Yaquina Bay.

ANSWER: There are currently six commercial cargo terminals equipped to load or discharge cargo from deep draft vessels in Coos Bay. They are the Roseburg Forest Products terminal and the Oregon Chip Terminal (OCT), both of which primarily export wood chips to Japan or China; Ocean Terminals, which primarily loads logs for the Weyerhaeuser Company for

export; the GMA Garnet terminal, which handles industrial garnet in bulk; the K2 Terminal, which has loaded log ships and has served as a lay berth; and the Southport Lumber terminal, which handles logs and wood chips.

The K2 Terminal and the GMA Garnet Terminal are little used. CBP's ship logs show a tug-and-barge and a log ship at K2 in November 2019, and none after. The 2021 forecast for K2 is zero. The GMA Garnet berth is slightly more active, with a forecast of one ship in 2021. The Southport Lumber terminal is active, but due to a change in Oregon State Law in 2017, the tugs and barges calling at Southport no longer require a state pilot. CBP expects to serve no ships calling at Southport in 2021 or beyond.

The most active terminal is Roseburg. In 2021, it is projected to load 35 wood chip carriers. (Facts about the terminal are available online at <https://www.roseburg.com/who-we-are/our-locations/cbst/> (last visited 21 Sep 2021).) The next most active is Ocean Terminals, which is projected to load 9 log ships in 2021. OCT is third, with a projected 8 wood chip carriers.

The primary stevedoring service in Coos Bay is Jones Oregon Stevedoring. Its manager in Coos Bay is Rocky Richards. In late 2020, Mr. Richards provided the following forecast for vessels requiring pilotage in 2021:

Roseburg Forest Products – 24 wood chip carriers

Ocean Terminals – 9 log ships

Oregon Chip Terminals – 8 wood chip carriers

GMA – 0

K2 – 0

Total 2021 Piloted Vessel Forecast – 41

In March 2021, Richard Dybevik, the Terminal Manager of Roseburg Forest Products' Coos Bay Shipping Terminal, told me that a new shipping contract increased RFP's forecast by 11 wood chip carriers. In addition, the GMA garnet berth had one vessel. These developments increased the 2021 forecast from 41 to 53 vessels.

The maritime industry in Coos Bay is a vital part of the local economy and the broader Oregon economy generally. The economic impacts go beyond Coos Bay. Many Southern Oregon sawmills provide wood chips that are exported from Coos Bay.

The three most active berths, Roseburg, OCT and Ocean Terminals, employ dozens of skilled workers whose jobs depend on calls by piloted vessels. The public interest in safe and efficient pilotage in Coos Bay is therefore very high.

There is little current demand for pilotage in Yaquina Bay. However, the Yaquina Bay bar pilotage ground is one of only four designated compulsory pilotage grounds in Oregon. As is noted on the video exhibit, the BLUE MAGPIE broke on the Yaquina Bay jetty when the Master tried to enter the bay without a pilot. It is important to have at least one unlimited Yaquina Bay bar pilot licensed by the state in order to ensure that if there is demand it can be promptly met, and CBP is committed to ensuring that the service continues. I hold a federal pilotage endorsement for Yaquina Bay, and anticipate receiving a state pilot license for Yaquina Bay before the end of 2021.

7. QUESTION: Please describe the amount of piloting activity in Coos Bay, including number of vessels, number of pilot assignments, size of vessels by gross registered tonnage (GRT), length, and draft.

ANSWER: The average number of vessels requiring pilotage in the Coos Bay Bar Pilotage Ground was 128 vessels per year during the period 2017 – 2019. The number dropped

significantly in 2020 to 67. The forecast for 2021 that we made in March was 52, and the actual number through June is 26, meaning the forecast proved to be quite reliable for the first half of the year.

Each vessel typically generates two piloting assignments, inbound and outbound. There is very little intra-harbor activity, as ships seldom move among berths or anchor inside Coos Bay. Thus, the projected number of piloting assignments in 2021 is 104, or two for each of the 52 projected vessels.

Vessel size has been trending upward. Chip ships, the most common of the vessels requiring pilotage in Coos Bay, have increased from an average of about 39,250 GRT in 2010 to an average of about 40,500 GRT in 2020. The largest we have piloted are the CRYSTAL and the RUBY, both being 52,906 GRT, both of which first called in 2021. Vessel drafts are correspondingly deeper, but are constrained by the 37-foot maintained channel depth.

Vessel length is not a tariff item and so it is not a data point tracked by CBP. However, I do not believe average vessel lengths have changed significantly since 2009.

8. QUESTION: Please address the changes in the amount of piloting activity in Coos Bay since the last rate order.

The most recent rate order for the Coos Bay bar pilotage ground and the Yaquina Bay bar pilotage ground is Final Board Order 09-02 dated 29 Apr 2009. Activity since 2009 is shown in Table 1, above.

Changes since the 2009 rate order include changes in the nature of the vessels calling at Coos Bay, and two significant statutory changes.

The fluctuation in the number of vessels is documented in the answer to Question 3, above. This year brought fewer vessels than 2020, which brought far fewer than 2019. At the

same time, vessel size has increased. In 2021, the M/V CRYSTAL and the M/V RUBY, both chip ships, have called at Coos Bay. They are both 52,906 GRT, the largest vessels ever to call in Coos Bay. Larger vessels are generally more difficult to pilot and to berth, and require greater care and very close communication with the assist tugs. For many reasons, piloting in Coos Bay is becoming more difficult rather than easier.

In 2012, the Oregon legislature enacted legislation that had a major impact on the finances of piloting in Coos Bay. Before the legislation, the pilot members of CBP were also the owners of Coos Bay Towboat Company. The primary business of Coos Bay Towboat Company was and still is providing ship assist tugs to help guide vessels into and out of the cargo berths. For many years, most of this work was done by Coos Bay Towboat Company or by its main competitor, Knutson Towboat Company. In 2012, as a result of lobbying by Knutson, the Oregon legislature adopted a law that prevents a Coos Bay pilot from having an ownership interest in a vessel that is providing ship assistance. (See ORS 776.600.) I was just concluding my training in Coos Bay at the time, but because a CBP pilot could no longer provide pilotage to a vessel that used a Coos Bay Towboat Company boat for ship assist work, I was not able to buy into Coos Bay Towboat Company. This deprived me of a traditional form of second income for Coos Bay Pilots.

A second change that resulted from the new legislation was the creation of Coos Bay Pilot Boat Company, which was created to purchase pilot launch tugs from Coos Bay Towboat to carry the pilots to and from vessels being piloted. Because the pilots have an ownership interest in the tugs owned by Pilot Boat Company, Pilot Boat Company tugs may not compete for ship assist work. This means that almost all of Pilot Boat Company's revenue must come from the Coos Bay Pilots.

A second important legislative development since the 2009 rate case was a new legislative exclusion to compulsory pilotage in Coos Bay affecting the tug-and-barge sector. In 2018 we served 41 barges, primarily at Southport Lumber Co., which accounted for 82 assignments. In 2019 it fell to 66 assignments. In 2020 it was only 26 assignments. So far in 2021, we have had no tug-and-barge assignments, and we expect none going forward. The explanation for this is passage in late 2017 by the Oregon legislature to exempt from compulsory pilotage barges being towed by U.S. flag tugs sailing under registry in the trade between British Columbia, Canada, and Coos Bay, ORS 776.405(1)(c)(D). It took some time for industry to adapt to the new law, but it has now determined that it can avoid all pilotage fees by hiring U.S. flag tugs to perform carriage between Coos Bay and British Columbia, carriage that before passage of the law would have required a Coos Bay pilot regardless of the nationality of the tug.

9. QUESTION: Please address compensation you have received as a Coos Bay pilot, and contrast it to the other Oregon pilot groups.

ANSWER: Exhibits CBP7 and CBP8 are CBP’s Special Purpose Financial Statements for the years 2018 (CBP7) and 2019 and 2020 (CBP8). A summary is set forth here for easy comparison:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
CBP revenue from pilotage	\$1,415,502	\$2,332,035	\$1,936,508
CBP Expenses	1,067,030	1,414,643	1,001,581
Pilot Benefits	159,322	113,088	267,312
Net available for distribution	189,151	804,305	640,908
Number of pilots	2.0000	1.2301	2.0000
Net per pilot	\$ 94,575	\$ 653,853	\$ 320,454

The three-year average net per pilot is \$356,294. My actual income from piloting during this three-year period was less than the “net per pilot” total because, in anticipation of a downturn

in 2020, we retained a good deal of the 2019 earnings to ensure that the approximately \$70,000 monthly expense paid to Pilot Boat Company could be met without incurring significant debt.

Large swings in annual income contribute to the challenges of piloting in Coos Bay. Other Oregon pilot groups do not experience the same variations. The Special Purpose Financial Statements for CRBP (CBP15 and CBP17) show annual high and low per-pilot nets of \$403,566 (2020) and \$367,588 (2018), a change of less than 10%. Similarly, Special Purpose Financial Statements for COLRIP (CBP25 and CBP30) reflect annual high and low per-pilot nets of \$365,829 (2019) and \$391,233 (2020), a change of about 7%. The difference between CBP's high and low is 690%. This makes family budgeting tough to say the least.

10. QUESTION: Please address total gross and net income for the pilots' group since the last rate order, including sources of income by tariff category.

ANSWER: This information is set forth in the table summarizing CBP's Special Purpose Financial Statements in the Answer to Question 9, above, as well as in CBP7 and CBP8.

11. QUESTION: Why did such significant changes in revenue and in per-pilot net occur during these years?

ANSWER: Fewer ships requiring pilotage called in Coos Bay in 2020 compared to 2019, and fewer still will call in 2021. I do not believe the reason for this is any change in the underlying economy. I am not aware of any data that suggests demand for the wood chips and logs that are the principal exports from Coos Bay have drastically changed. Indeed, the number of chip ships calling at Coos Bay has remained relatively and is expected to *increase*. (CBP12). Similarly, the number of log ships has fairly constant, averaging around one per month, in the past five years. I believe, rather, that the reason for the downturn was a change in the law

exempting certain tugs-and-barges from compulsory pilotage in Coos Bay, as well as the effects of COVID-19.

As noted above, passage of ORS 776.405(1)(c)(D) eliminated tugs-and-barges calling at the Southport Lumber terminal as a source of business for CBP, a significant loss. This is a significant reason why we are now in the position of seeking a 15% increase in the pilotage tariff. If one shipping sector is exempted from pilotage, the remaining sectors that are not exempt must expect to pay more, if pilotage is to continue to be available when needed.

COVID-19 has also had an impact, because it reduced the amount of longshore labor available to load log ships. The longshore workers are member of the International Longshore and Harbor Workers Union (ILWU). As a result of COVID-19, the ILWU no longer permit ILWU “travelers” to come work in Coos Bay. It takes much longer to load a log ship with only local ILWU workers. If there is a chip ship in port, there is only one longshore gang available to load a log ship. Before COVID-19, it took five to seven days to fully load and lash a log ship; today, with no travelers to supplement the local ILWU workers, it takes more than 20 days.

12. QUESTION: Please discuss the regular, recurring expenses associated with piloting in Coos Bay.

ANSWER: Pilot Boat Company is the largest expense of the Coos Bay Pilots, but we have other expenses as well. The most significant of these are insurance and benefits for the pilots. Insurance in particular has been a burden, and has increased significantly faster than the overall cost of living as measured by the CPI.

Comparison of the 2018 and 2019 SPFS (CBP7 and CBP8) shows a 37.5% increase in total expenses from \$1,028,288 in 2018 to \$1,414,643 in 2019. The cost-of-living adjustments applied during that period were 3.55% (2018) and 2.67% (2019). Several recurring expenses,

such marine liability and medical and disability insurance costs, have increased much faster than the rate of inflation. The reported expenses in 2020 fell to \$1,150,023. They were lower in part because we deferred those expenses we could, and because variable costs fell with the dramatic decrease in ship traffic, but they were still higher than 2018 by almost 12%.

13. QUESTION: Please describe the settlement agreement among the pilots, the CRSOA and the Port of Coos Bay.

ANSWER: We asked the terminal operators, the Port, and the CRSOA to consider a 25% increase to pilotage rates. In a meeting with representatives of Roseburg and Ocean Terminals, it was suggested that they would support a 12% increase. Mr. Dybevik ultimately write a letter to the Board in which he proposed a 12% increase. CBP12.

The CRSOA took the leading role for industry in negotiations with us. In the give and take, we reduced our demand from 25% to 17%, and ultimately agreed to 15%. The settling parties also agreed to an enhancement to the annual cost-of-living-adjustment of one-half of one percent. This was the amount that was awarded to both the Bar Pilots and the River Pilots in their rate cases, BP 11 and BP 12.

Finally, CBP agreed to a reduction in pilotage fees for tug-and-barge jobs. The existing tariff treats tugs and barges, except for articulated tugs and barges (ATBs), as two separate vessels. The compromise would treat tugs and barges as one, using the GRT and the draft of the larger of the two for computing rates.

14. QUESTION: Why are the shipping terminals not signatories to the settlement agreement, CBP3?

ANSWER: Formal party status was only requested by the CRSOA. My understanding is that the CRSOA took into account the interests of the Port and the terminals during our

negotiations. Strictly speaking, the customers of CBP are not the terminals but the vessels that call in Coos Bay. In any event, I am not aware of any objections to the settlement.

15. QUESTION: What changes do you foresee in the near future that will likely affect piloting in Coos Bay?

ANSWER: We are looking forward to repair of the jetties at the entrance to the Coos Bay bar, which will increase safety on the bar. Similarly, we are looking forward to widening and deepening of the maintained navigation channel.

We learned in 2021 that Pembina has decided to shelve plans to build an LNG terminal in Coos Bay. (See CBP31.) The LNG terminal was long anticipated as a big boost for shipping in Coos Bay and for the Coos Bay economy generally. There is now no expectation that it will be built.

On the other hand, on September 1, 2021, the Port of Coos Bay announced its intention to develop a container terminal. (See CBP11.) I believe this was motivated, at least in part, by continuing backlogs for container vessels in larger ports. For example, the Port of Los Angeles has experienced record-setting congestion. At one point this summer over 55 vessels were waiting for a container berth in Los Angeles. (See CBP32 and CBP33.) The idea that a small container terminal in Coos Bay could give container lines rapid access to a container berth is sound. It is much faster to bring a ship into and out of Coos Bay than up the Columbia River to Portland, Vancouver or even Longview, so an always-available terminal in Coos Bay has some chance of success. But development of a large project like this takes years. I would not expect any significant revenue from a Coos Bay container terminal for at least three years, and probably not for five. It certainly will not impact projected revenues during the two-year period contemplated for the rate adjustments requested in the Settlement Agreement in this case.

Signed at Coos Bay, Oregon, under penalty of perjury under the law of Oregon this
30th day of September, 2021.

GEORGE WALES

A handwritten signature in cursive script, reading "George R. Wales", written over a horizontal line.