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APPENDIX B TO PART 404—RATEMAKING
DEFINITIONS AND FORMULAS

The following definitions apply to the rate-making formula contained in this appendix.

(1) Operating Revenue—means the sum of all operating revenues received by the Association for pilotage services, including revenues such as docking, moveage, delay, detention, cancellation, and lock transit.

(2) Operating Expense—means the sum of all operating expenses incurred by the Association for pilotage services, less the sum of disallowed expenses.

(3) Target Pilot Compensation—means the compensation that pilots are intended to receive for full time employment. For pilots providing services in undesignated waters, the target pilot compensation is the average annual compensation for first mates on U.S. Great Lakes vessels. For pilots providing services in designated waters, the target pilot compensation is 150% of the average annual compensation for first mates on U.S. Great Lakes vessels.

(4) Operating Profit/(Loss)—means Operating Revenue less Operating Expense and Target Pilot Compensation.

(5) Interest Expense—means the reported Association interest expense on operations, as adjusted to exclude any interest expense attributable to losses from non-pilotage operations.

(6) Earnings Before Tax—means Operating Profit/(Loss), less the Interest Expense.

(7) Federal Tax Allowance—means the Federal statutory tax on Earnings Before Tax, for those Associations subject to Federal tax.

(8) Net Income—means the Earnings Before Tax, less the Federal Tax Allowance.

(9) Return Element (Net Income plus Interest Expense)—means the Net Income, plus Interest Expense. The return element can be considered the sum of the return to equity capital (the Net Income), and the return to debt (the Interest Expense).

(10) Investment Base (separately determined)—means the net recognized capital invested in the Association, including both equity and debt. Should capital be invested in other than pilotage operations, that capital is excluded from the rate base.

(11) Return on Investment—means the Return element, divided by the Investment Base, and expressed as a percent.

Investment Base Formula

(1) Regulatory Investment (Investment Base) is the recognized capital investment in

the useful assets employed by the pilot groups. In general, it is the sum of available cash and the net value of real assets, less the value of land. The investment base is established through the use of the balance sheet accounts, as amended by material supplied in the Notes to the Financial Statement.

(2) The Investment Base is calculated using financial data from the Great Lakes pilot associations, as audited and approved by the Director. The Investment Base would be calculated as follows:

	<i>Description</i>
Recognized Assets:	
	+ Total Current Assets
	– Total Current Liabilities
	+ Current Notes Payable
	+ Total Property and Equipment (Net)
	– Land
	+ Total Other Assets
	<hr/>
	= Total Recognized Assets
Non-Recognized Assets	
	+ Total Investments and Special Funds
	<hr/>
	= Total Non-Recognized Assets
Total Assets	
	+ Total Recognized Assets
	+ Total Non-Recognized Assets
	<hr/>
	= Total Assets
Recognized Sources of Funds	
	+ Total Stockholders' Equity
	+ Long-Term Debt
	+ Current Notes Payable
	+ Advances from Affiliated Companies
	+ Long-Term Obligations-Capital Leases
	<hr/>
	= Total Recognized Sources
Non-Recognized Sources of Funds	
	+ Pension Liability
	+ Other Non-Current Liabilities
	+ Deferred Federal Income Taxes
	+ Other Deferred Credits
	<hr/>
	= Total Non-Recognized Sources
Total Sources of Funds	
	+ Total Recognized Sources
	+ Total Non-Recognized Sources
	<hr/>
	= Total Sources of Funds

(3) Using the figures developed above, the Investment Base is the Recognized Assets times the ratio of Recognized Sources of Funds to Total Sources of Funds.

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