

AGENDA

Port Freeport
Pilot Commission
Special Meeting

Thursday, October 29, 2020, 8:30 am

Via Video/Teleconference - Administration Building - 1100 Cherry Street - Freeport



Notice is hereby given that the Port Freeport Port Commission will convene a meeting at the time and place indicated above. This Port Commission meeting **will be open to the public to attend in person**, including but not limited for purposes of commenting during the public hearing set forth in the agenda. In addition and pursuant to Port Freeport's commitment to transparency, should any individual be unable to physically attend the hearing due to the COVID-19 pandemic, but want to participate by telephone or virtually, this meeting will also be open to the public pursuant to the order by the Office of the Governor issued March 16, 2020. The instructions for attending by phone or computer are listed below.

This meeting agenda and agenda packet is posted online at www.portfreeport.com

Please join the meeting from a computer, tablet or smartphone.

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1. CONVENE OPEN SESSION in accordance with Texas Government Code Section 551.001, et. seq., to review and consider the following:
2. Roll Call.
3. Public Comment. (Public comment will be limited to 5 minutes per participant and must be completed virtually via the toll free number)
4. EXECUTIVE SESSION in accordance with Subchapter D of the Open Meetings Act, Texas Government Code Section 551.001, et. seq., to review and consider the following:
 - A. Under authority of Section 551.071 (Consultation with Attorney) for discussion regarding:
 1. Consultation with attorney regarding legal matters related to Brazos Pilots Association request for adjustment to pilot tariff dated October 1, 2020.
5. RECONVENE OPEN SESSION to review and consider the following:
6. **IF** an objection is timely filed by any person who appears to have a legitimate interest, a hearing will be held pursuant to Chapter 68 of the Texas Transportation Code to consider an approval, denial or modification of the application submitted by the Brazos Pilots Association for rate adjustment to pilot tariff dated October 1, 2020. The application for pilotage rate increase relates to the following items and more particularly described in the application attached to this agenda:
 - A. Institute a Communication/Dispatch Charge to cover the costs and expenses of providing a state-of-the-art dispatch service. (Effective 2021);
 - B. Adjust the Education Fee so that we can invest in more, and better, continuing education and training for our pilots and pilot boat operators. (Effective 2021);
 - C. Extend the Draft Charge Table to include vessels with drafts greater than 42 feet. (Effective 2021);

- D. Continue the Boat Fee to cover the construction and acquisition of a second pilot boat.;
- E. Institute a minimum charge based on actual vessel size rather than by a set fee. (Effective 2022); and
- F. Increase Units Charges, Draft Charges, Detention Charges, and Holding Charges by 3% a year for 5 years to cover the cost of additional and necessary personnel. (Effective 2022-2026)
7. **IF** no objection is timely filed by any person who appears to have a legitimate interest, a meeting will be held to discuss and consider the approval, denial or modification of the application submitted by the Brazos Pilots Association for rate adjustment to pilot tariff dated October 1, 2020. The application for pilotage rate increase relates to the following items and more particularly described in the application attached to this agenda:
- A. Institute a Communication/Dispatch Charge to cover the costs and expenses of providing a state-of-the-art dispatch service. (Effective 2021);
- B. Adjust the Education Fee so that we can invest in more, and better, continuing education and training for our pilots and pilot boat operators. (Effective 2021);
- C. Extend the Draft Charge Table to include vessels with drafts greater than 42 feet. (Effective 2021);
- D. Continue the Boat Fee to cover the construction and acquisition of a second pilot boat.;
- E. Institute a minimum charge based on actual vessel size rather than by a set fee. (Effective 2022); and
- F. Increase Units Charges, Draft Charges, Detention Charges, and Holding Charges by 3% a year for 5 years to cover the cost of additional and necessary personnel. (Effective 2022-2026)
8. The Pilot Commission may recess and continue the agenda items listed above at 8:30 a.m. on October 30, 2020.
(The same login information will be used should the meeting be continued.)
9. Adjourn.

The Pilot Commission does not anticipate going into a closed session under Chapter 551 of the Texas Government Code at this meeting for any other items on the agenda, however, if necessary, the Pilot Commission may go into a closed session as permitted by law regarding any item on the agenda.

With this posted notice, Port Commissioners have been provided certain background information on the above listed agenda items. Copies of this information can be obtained by the public at the Port Administrative offices at 1100 Cherry Street, Freeport, TX.



Phyllis Saathoff, Executive Director/CEO
PORT FREEPORT

In compliance with the Americans with Disabilities Act, the District will provide for reasonable accommodations for persons attending its functions. Requests should be received at least 24 hours in advance.



BRAZOS PILOTS

ASSOCIATION

**Brazos Pilots Association's
Request to the Pilot Board
For Adjustment to the Pilot Tariff**

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BRAZOS PILOTS
ASSOCIATION

Mr. Shane Pirtle, Chairman
Board of Pilot Commissioners

October 1, 2020

Dear Chairman Pirtle,

Since 2016, shipping traffic in the Port of Freeport has seen a steady increase. From 2016 to 2019, billions of dollars were invested in port infrastructure by every port terminal operator. Freeport LNG was building their export facility, Phillips 66 was adding a gas export business, Dow partnered and started construction on two new blocks, and Port Freeport was finishing the Velasco Container Terminal. With the growth projections and expanding business opportunities for the port terminal facilities, the number of ships projected to visit our port also increased. In 2016, the Brazos Pilots Association offered minimum services with dated equipment. It was difficult to invest in new technologies, continuing education for pilots and boat crews, and the sharing of logistical information with our customers and other stakeholders. Safe and efficient movement of vessels was, and is, our priority and as a result, we concentrated our efforts on vessel safety and maintaining an efficient tariff rate.

With the increase in traffic and projections of the many additional ships that were to come, we knew we were going to have to change the way that business was being done to meet the growing expectations of our customers. In 2016, the Brazos Pilots constructed a ten-year plan to address the changes required to meet the expectations of the port for the next decade. We identified several areas that needed attention, including the recruitment and training of additional pilots and pilot boat personnel, developing a dispatch service, updating equipment, updating business practices, and building larger, safer, more efficient pilot boats. Even though the Brazos Pilots have served Brazoria County for over a hundred years, it seemed like we were building a completely new operation from scratch. In 2017, armed with our plan to make the Brazos Pilots more responsive and adaptable to port and industry needs of this century, we partnered with the Port Freeport Pilot Commissioners to adjust the tariff so we could take the first steps on the long road to accomplishing the goals we set for ourselves in our ten-year plan.

As a result of the rate adjustment approved by the Board three (3) years ago now, we were able to develop a funding and finance mechanism to allow the Association to replace one of its outdated pilot boats. We also established a method of funding important and necessary pilot boat maintenance in the future. We brought on board and trained four new pilots and renovated our facilities and pilot station, which allowed us to run our operations more efficiently. We hired, trained, and put to work two new pilot boat operators and revised our policies and procedures to modernize our operations and business practices. We established a much requested and needed

dispatch service with funding through a public/private partnership sponsored by the Port Commissioners, which has proven its considerable value to the Association, the Port, and our customers every day since it went online.

The last three years and the changes adopted by the Association have very productive in moving our Port and the Brazos Pilots Association forward, but we are only a third of the way through our original 2016, and now is not the time to rest. And, while much work has been done and much progress has been made, there is still much more work to be done as the Brazos Pilots Association is still not in a position to handle the significant increase in ship traffic coming to our port in the next few years.

Given the foregoing, the Brazos Pilots Association is requesting that the Port Freeport Pilot Commissioners consider and adopt a rate adjustment to take effect on January 1, 2021, to address some vital needs of the Association and the Port over the next six years. Below is a summary of the Association's proposed changes to the existing tariff that the Brazos Pilots would like the Pilot Board to adopt and the reasons for the requested changes. These modifications will ensure that pilot services can continue to keep pace with the growth of the port and the needs of vessels, terminals, and operators utilizing docks within the greater Port of Freeport complex.

Goals of the 2020 Rate adjustment:

1. Institute a Communication/Dispatch Charge to cover the costs and expenses of providing a state-of-the-art dispatch service. (Effective 2021)
2. Adjust the Education Fee so that we can invest in more, and better, continuing education and training for our pilots and pilot boat operators. (Effective 2021)
3. Extend the Draft Charge Table to include vessels with drafts greater than 42 feet. (Effective 2021)
4. Continue the Boat Fee to cover the construction and acquisition of a second pilot boat.
5. Institute a minimum charge based on actual vessel size rather than by a set fee. (Effective 2022)
6. Increase Units Charges, Draft Charges, Detention Charges, and Holding Charges by 3% a year for 5 years to cover the cost of additional and necessary personnel. (Effective 2022-2026)

1. Institute a Communication/Dispatch Charge to cover the costs and expenses of the state-of-the-art dispatch service.

Presently the Pilots operate a private dispatching service, Fort Velasco Signal Station, which is funded by the public and private terminals of the port. Even though Fort Velasco Signal Station's business structure is sponsored by the Port Commissioners, direct oversight is outside of the Pilot Commission and the Tariff. We propose transferring the ownership and operation of Fort Velasco Signal Station to the Brazos Pilots Association. This would bring the dispatch service under the oversight of the Port Freeport Pilot Commissioners and allow revenue from the communication/dispatch tariff charge to offset the expenses incurred to operate the service. The Brazos Pilots Association spent approximately \$350,000 to purchase equipment and to refit our pilot station in order to support the communication and dispatch operations of Fort Velasco Signal Station. Fort Velasco Signal Station was created in partnership with local channel users and sponsored by the Port Commissioners to show proof of concept and budget planning for a

two-year period. The service dispatches pilots and provides critical weather data and logistical information sharing to and between Freeport Channel users. The success of Fort Velasco Signal Station cannot be overstated. We have hundreds of users ranging from terminals, agents, USCG, USCBP, mooring operations, tug operations, and other interested parties receiving real time vessel transit data. The ability to order labor, predict delays, and to manage and control activities in the port has greatly, and vastly, improved – to the economic benefit of all concerned. Now, not only can Dispatch notify, track, and manage the increased vessel traffic during normal conditions, it can also do so, in stellar fashion, during fog, adverse weather conditions, and a global pandemic.

The increased functional and operational abilities to be realized as a result of expanding the Communications/Dispatch abilities of the signal station by implementing the requested Communication/Dispatch Charge will help the port to reach its full potential. The requested Communications/Dispatch Charge will fund a dedicated account to cover the operational costs to the Association of providing, and continually improving, an already proven dispatch service. We propose a line charge of:

$$\text{Communication Charge} = \$65.00 + (\text{Units} \times .18) \text{ for each vessels transit}$$

This line item charge will be re-evaluated annually with a goal of maintaining the dispatch system's operating expenses to within 5% of the previous year's operating cost. The Brazos Pilots Association will prepare an annual report of the revenue and expenses of the Communication/Dispatch Charge and submit this report to the Pilot Commission.

2. Adjust the Education Fee to allow for more, and better, continuing education and training for pilots and pilot boat operators.

The Association needs to be adequately trained and prepared for the technical proficiency required to safely pilot vessels. The current education fee doesn't generate enough money to fully fund a real and pertinent training program, including manned-model ship handling training and simulator training that is specific to the ship traffic we anticipate will soon be calling upon the Port in ever increasing size and numbers. The current system worked adequately when the Association had only 4 older pilots and 3 boatmen but given the fact that we have added two more pilots and two more boat operators, and intend to add deckhands in the near future, an immediate increase in the education charge is necessary so that the skills, knowledge, efficiency and safety of these key personnel may not only be maintained, but also improved. In order to train this increased number of key personnel, we request a modification to our current education charge, which is designed to shift the burden of these education expenses to the larger ships as they are the ones that take more skill and technical proficiency to pilot. The new education charge keeps the cost the same for smaller vessels and increases the cost as the ships get larger in size and will help ensure the increase in the number of hands on personnel does not equate to a less prepared pilot organization. Presently, the education fee is a fixed fee of \$17.22 per movement. The Brazos Pilots propose changing the way the education fee is calculated to:

$$\text{Education fee} = \$10.00 + (\text{Units} \times .03)$$

3. Expand the Draft Charge Table to include vessels with drafts greater than 42 feet.

The Freeport Harbor Deepening and Widening Project will bring newer and deeper ships to the channel and require us to amend the parameters of our tariff box. For the last several decades, 42 feet was the deepest draft vessel that could transit the Port of Freeport. Presently, our draft charge only goes to 42 feet, so if a vessel with a draft exceeding 42 feet was to transit the port it would not be addressed in the tariff. The deepening of the channel will require that the tariff based on the draft of the vessel be expanded to address the new channel depth. We propose increasing the new deep draft charge incrementally, so that the deeper the draft of the vessel the higher the draft rate would be. A table of proposed deep draft charges for vessels ranging from 42 feet to 52 feet is included for your review (*Attachment A*). The current channel is not deep enough to handle ships with these drafts, however we request that the Pilot Commissioners include this expansion of the draft rate table into the tariff in anticipation of the completion of the Freeport Harbor Deepening and Widening Project. *It is important to note that this change to the tariff based upon vessel draft will not increase the tariff for any present customers of the port.*

4. Continue the Boat Fee to cover the construction and acquisition of a soon to be required second pilot boat.

Thanks to the vision and creativity of the Pilot Commissioners in 2017, we were able to develop a funding and finance mechanism which allowed the Association to replace one of its antiquated pilot boats. Because of the Pilot Commissions' visionary action, the Association was able to construct and take delivery of the new 64 ft *Brazos Pilot* in 2019. This new state-of-the-art boat was delivered on time, on budget and entered service in January 2019, and is now three (3) months shy of being two years old already.

Presently the charge is: Boat Fee = \$100 + (Units x .1)

The current and projected increase in ship traffic, coupled with a new pilot boarding area further offshore (Sea Buoy), will require strategic, forward looking planning and replacement of our 20-year-old, 58 ft "Freeport Pilot 1" with a larger, modern boat. Adequate pilot boats to transfer our increased pool of pilots further offshore to larger vessels is even more imperative today than in 2017 when we made our previous request for a method to fund the acquisition of a new pilot boat. The Brazos Pilots are NOT requesting an increase in the boat fee. The Brazos Pilots are proposing to construct and acquire a second boat at **no additional per-transit cost to our customers**. We estimate that the ship mortgage on the *Brazos Pilot* will be paid off in third quarter of 2026 and our request is simply that the existing tariff be modified to include the purchase of a second vessel at that time. The cost of the new second vessel will not exceed \$4.5 million and under our plan the current Boat Fee would remain intact without increase to the tariff until an expected payoff for the second boat in approximately 2051. The boat fee is, and will continue to be, held in a dedicated escrow account, and only applied to the payment of the mortgage of these two specific pilot boats. One hundred percent (100%) of all revenue generated by the boat fee will be used to pay the principle and interest of the boat mortgage(s). The new ending date of the boat fee would be adjusted to coincide with the actual payoff date of the second boat in approximately 2051.

5. Institute a minimum charge based on vessel size instead of a set fee.

As stated above in Section 3 above, the Freeport Harbor Deepening and Widening Project will bring new business to the channel and require us to amend the parameters of our tariff box. The deepening and widening project will include additional reaches to our channel as it includes recommissioning the Stauffer Channel, a section of the port that has been out of USACE dredge maintenance program since the 1970's. These additional reaches and the increase in depth and width of the channel will significantly alter the makeup and proportions of the vessel portfolio that calls on the port. Smaller, lighter vessels use up a large amount of pilot resources and, in Freeport, their operation has always been subsidized by larger vessels. Proportionally, smaller, lighter vessels make up 20% of the business of the Association and account for less than 10% of the Association's revenue. If the Stauffer Channel is re-opened, these vessels have the possibility of overwhelming the present manpower of the Association without providing the revenue to service the channel at the needed levels. At the present time, the pilot tariff includes a minimum charge per invoice of \$1,123.94. We recommend eliminating the minimum charge and instituting a minimum draft charge of 25 feet and a minimum unit charge of 520 units. This will ensure that pilot services are able to cover this potential increase in small vessel traffic requiring the services of a pilot.

The pilots are proposing a Minimum Charged based on:

Draft 25 ft

Units 520 units

6. Increase Units Charges, Draft Charges, Detention Charges, and Holding Charges by 3% a year for 5 years to cover the cost of increase personnel.

As the port grows and infrastructure is expanded and modified, the Brazos Pilots must be allowed to continue to grow and adapt to meet this ever-increasing demand. We continue to renovate, expand, and improve our pilot station and associated dock and other facilities to extend its already 40-year-old life. We have also expanded the footprint of our pilot station and purchased the equipment needed to launch the highly regarded pilots dispatch and communications service. The Pilots have invested \$350,000 in the station over the last 2 years to allow the 40 year old building to continue to work efficiently and in the near future we would like to develop and construct a third dock at our station, which has an estimated construction cost of \$1 million.

Further, our pilot workforce has increased from 4 to 6 employees in the last year to handle the current and future increase in port traffic as well as the larger, deeper, and more complex vessels calling on the port, which in turn has required us to add personnel to accommodate the increased number of trips resulting from the increased number of pilots and port traffic. The addition of these new employees has added \$218,400 to our payroll cost this year.

Also, for the last several decades we employed 3 pilot boat operators that worked 48-hour shifts. Given the increased demand on the boats, we hired 2 additional pilot boat operators and adjusted their schedule to 12-hour shifts for increased safety and efficiency. We moved our senior boat operator to the newly created position of "Port Captain", to manage boat maintenance and maximize uptime on the 3 vessels we currently operate. At numerous times in the past few years, the Board has also suggested a need to hire deckhands for our pilot boats to make a two-person

crew a reality. We agree with the Board that hiring deckhands for our pilot boats is a good idea as we are currently operating without this additional safety layer. Our projected budget for two deckhands is \$340,800 annually.

We are fast approaching (if in fact we have not already arrived) the need to run two pilot boats given the greatly increased traffic volume and run times. Simultaneous boat operations are on the horizon and will logically increase our operating costs considerably. Our fuel expenses have doubled since we began operating our new pilot boat. Part of the ten-year plan we mentioned above is to operate two larger, faster pilot boats to service the new Sea Buoy and to keep our older boat in service for in-port pilot transfers. In 2019, when we put the *Brazos Pilot*, a 65' pilot boat, into service, we were able to increase the number of pilots that could simultaneously be dispatched on the boat. This enhanced capability significantly increased our weather window and safety during pilot transfers, both of which are undeniable positives, but the new vessel also came with increased operating costs. In order to save costs and expand the useful life of our 2001 pilot boat, *Freeport Pilot 1*, we spent \$125,000 this year overhauling it, ensuring another decade of service in lieu of replacement.

We are committed to doing the very best that we can to provide and maintain safe, economical, and efficient pilotage services our customers, and the suggested 3% increase on fees outside of line charges is reasonable and necessary to keep pace with the increased expenses necessary for us to provide the level of services you expect and that we wish to provide. The 3% increases on fees outside of line charges will not pay for all of the improvement projects needed but will allow us to meet the increased costs necessary to provide the improvements and enhancements described herein. It is therefore our hope that the Board will favorably review the requests made herein and pass our motion to amend our tariff so the pilots can continue to support the Port of Freeport well ably and commendably into the future. The proposed tariff increases set forth herein are reasonable and necessary. When implemented by you, we will remain one of the lowest cost pilot services on the Gulf Coast.


In conclusion, Port growth has placed increased demands on the Brazos Pilots. We have proactively met these challenges with our port partners to ensure we provide safe, efficient, and economical pilot services. Since our last rate request three (3) years ago in 2017, we have implemented numerous changes to operations, personnel, and assets. With your adoption and approval of the tariff changes proposed herein, the Association will continue its history and tradition of continually improving service, safety and efficiency in the Port of Freeport and the requested tariff items will ensure continued service at the highest level to the State of Texas, our Port, and customers.

Respectfully,


Daniel Blanton
President


Matthew K. John
Vice President


Billy Burns
Sec/Treasurer


Ross Coviello
Director


Sean Kelly
Director

Expanded Draft Charge Table

Draft Table

Min 25 Ft	2020	2021
< 42 Ft	\$ 33.79	\$33.79
> 42 Ft	waiver	\$38.11
> 43 Ft	waiver	\$41.92
> 44 Ft	waiver	\$45.73
> 45 Ft	waiver	\$49.54
> 46 Ft	waiver	\$53.36
> 47 Ft	waiver	\$57.17
> 48 Ft	waiver	\$60.98
> 49 Ft	waiver	\$64.79
> 50 Ft	waiver	\$68.60
> 51 Ft	waiver	\$72.41
> 52 Ft	waiver	waiver