

One comment stated that just as Districts Two and Three are being allowed added expenses for contributions to employees' 401(k) plans, so should District One. In the NPRM, because District One does not administer a 401(k) or other retirement program as do Districts Two and Three, no allowance was permitted. The Coast Guard is reviewing this issue, but for this partial rate calculation, we used the same figures as in the NPRM.

This comment also stated that the adjustment for inflation should be approximately 5 to 6 percent instead of the 2 percent determined by the Coast Guard. The comment stated that because it will be almost two years from the measurement year (2001) before the rate goes into effect, the pilots should receive twice the inflation. The Coast Guard will calculate a new adjustment for inflation when it calculates the full rate adjustment.

The comment also stated that travel expenses for District One were incorrectly calculated. According to the comment, travel expenses were overstated by \$25,380 for Area 1 and understated by \$37,075 for Area 2. The Coast Guard will review the allocation of travel expenses before calculating the full rate adjustment.

The comment also stated that the Coast Guard's projection of bridge hours for 2003, which is similar to those of 2001, is too low. The Coast Guard disagrees. The economy has actually performed consistently with the projections in the NPRM.

Other Changes

This rule also corrects the equation used in step 6 of the methodology to compute Return on Investment. Currently in the CFR, the equation illustrating how to arrive at Return on Investment contains an error. The last step of the calculation "adds" the Investment Base to the Return Element to arrive at the Return on Investment. Adding would not produce the Return on Investment. To obtain the Return on Investment, it is necessary to divide the Return Element into the Investment Base. We have made the appropriate correction to the equation in this interim rule by removing the "+" and adding, in its place, the "÷".

Discussion of Interim Rule

This interim rule provides a partial rate adjustment using the methodology in 46 CFR part 404, the 2001 expenses and revenues, and the 2002 American Maritime Officers Union contract.

The Next Steps

Following the partial rate adjustment in this interim rule, the Coast Guard will resolve the remaining rate calculation issues raised by the January, 2003, NPRM. We will calculate a full rate adjustment using the methodology in 46 CFR Part 404.

We plan to publish a supplemental notice of proposed rulemaking (SNPRM) in February, 2004, with an opportunity to comment before effecting a proposed full permanent rate adjustment during the Spring, 2004.

In the full rate adjustment calculation, the Coast Guard is considering using the figures from the 2003 AMOU contract, to replace the 2002 AMOU contract figures that were used to determine the proposed rate in the NPRM. The calculations would also include the rate and revenue figures from each of the three districts for 2002. The Coast Guard specifically requests comments on whether we should use the newer figures to calculate the full rate adjustment.

Regulatory Evaluation

This rule is not a "significant regulatory action" under section 3(f) of Executive Order 12866, Regulatory Planning and Review, and does not require an assessment of potential costs and benefits under section 6(a)(3) of that Order. It has not been reviewed by the Office of Management and Budget under that Order. It is not "significant" under the regulatory policies and procedures of the Department of Homeland Security (DHS).

We expect the economic impact of this rule to be so minimal that a full Regulatory Evaluation under the regulatory policies and procedures of DHS is unnecessary.

Ratemaking Process and Methodology

This section is a description of the analyses performed, and the seven-step methodology followed, in the development of the interim partial rate

adjustment. The first part summarizes the partial rate changes in this interim rule; the second part describes the ratemaking process, explaining the formulas that make up the methodology and the use of the numbers obtained from the report of the independent accountant for the year 2001 in the formulas to show how the partial rate adjustment was actually calculated; and the third part describes how the rate in this interim rule differs from the one proposed in the NPRM published in January, 2003.

Part I: Pilotage Rate Charges—Summarized

The pilotage rates for federal pilots on the Great Lakes contained in 46 CFR 401.405, 401.407, and 401.410 have been adjusted in accordance with the methodology appearing at 46 CFR part 404. The partial rate adjustment results in an average increase across all districts of 5 percent as set out in Figure 1:

FIGURE 1
[Rate in percent]

If you require pilotage service in:	The rate will:
Area 1 (Designated waters)	Increase by 4
Area 2	Decrease by 5
Area 4	Increase by 21
Area 5 (Designated waters)	Decrease by 5
Area 6	Increase by 20
Area 7 (Designated waters)	Decrease by 17
Area 8	Increase by 19

Pilotage rates for "Cancellation, delay or interruption in rendering services" and "Basic rates and charges for carrying a U.S. pilot beyond [the] normal change point or for boarding at other than the normal boarding point," in 46 CFR 401.420 and 401.428, respectively, are increased by an average of 5 percent.

The seven-step calculation of the methodology is summarized in the table for each District. The actual calculations are then explained in more detail for each entry in the tables.

TABLE A.—DISTRICT ONE

	Area 1 St. Lawrence River	Area 2 Lake Ontario	Total District One
Step 1, Projection of operating expenses	\$359,704	\$239,802	\$599,506
Step 2, Projection of target pilot compensation	785,279	352,726	1,138,005
Step 3, Projection of revenue	1,105,233	629,149	1,734,382
Step 4, Calculation of investment base	50,000	50,000	100,000