

DISTRICT THREE

	Area 6 Lakes Huron and Michigan	Area 7 St. Mary's River	Area 8 Lake Superior	Total District Three
Projection of revenue	\$1,540,306	\$1,119,819	\$1,030,693	\$3,690,818

Step 4: Calculation of Investment Base

(1) The fourth step in the ratemaking methodology is the calculation of the investment base of each Association. The investment base is the recognized capital investment in the assets employed by each Association required to support pilotage operations. In general, it is the sum of available cash

and the net value of real assets, less the value of land. The investment base has been established through the use of the balance sheet accounts, as amended by material supplied in the notes to the independent accountant's financial statements, which are in the public docket, and adjustments taken by the Coast Guard after consulting with the accountant.

(2) The formula for determining the investment base appears at appendix B to part 404. The calculation appears in the independent accountant's reports for each district. The Investment Base is the Recognized Assets times the ratio of Recognized Sources of Funds to Total Sources of Funds. The investment base (Step 4) as calculated for each district is displayed below:

DISTRICT ONE

	Area 1 St. Lawrence River	Area 2 Lake Ontario	Total District One
Calculation of investment base	\$50,000	\$50,000	\$100,000

DISTRICT TWO

	Area 4 Lake Erie	Area 5 Southeast Shoal to Port Huron, MI	Total District Two
Calculation of investment base	\$89,734	\$140,353	\$230,087

DISTRICT THREE

	Area 6 Lakes Huron and Michigan	Area 7 St. Mary's River	Area 8 Lake Superior	Total District Three
Calculation of investment base	\$111,660	\$83,752	\$83,752	\$279,172

Step 5: Determination of Target Rate of Return on Investment

(1) The fifth step in the ratemaking methodology is to determine the Target Rate of Return on Investment. For each Association, a market-equivalent return-on-investment is allowed for the recognized net capital invested in the Association by its members.

(2) The allowed Return on Investment (ROI) is based on the preceding year's average annual rate of return for new issues of high-grade corporate securities.

(3) Assets subject to return on investment provisions must be reasonable in both purpose and amount. If an asset or other investment is not necessary for the provision of pilotage services, that portion of the return

element is not allowed for ratemaking purposes.

(4) The target rate of return on investment for 2002 was set at 7.04 percent. This is based on the preceding year's (2001's) average annual rate of return of new issues of high-grade corporate securities (Moody's AAA rating, average return).

Step 6a: Adjustment Determination—Projected Return on Investment

(1) The next step in the ratemaking methodology is to insert the results from steps 1, 2, 3, and 4 into a formula that is based on a basic regulatory rate structure, and comparing the results to step 5. This basic regulatory rate structure takes into account revenues,

expenses and return on investment, as set out below:

ADJUSTMENT DETERMINATION
(PROJECTED RETURN ON INVESTMENT)

Line	Calculation
1	+ Revenue (from Step 3)
2	– Operating Expenses (from Step 1)
3	– Pilot Compensation (from Step 2)
4	= Operating Profit/Loss
5	– Interest Expense (from Audit reports)
6	= Earnings Before Tax
7	– Federal Tax Allowance
8	= Net Income
9	Return Element (Net Income + Interest)
10	÷ Investment Base (from Step 4)
11	= Projected Return on Investment