State and location	Community No.	Effective date authorization/cancellation of sale of flood insurance in community	Current effective map date	Date certain Federal assistance no longer available in SFHAs
Riley County, Unincorporated Areas	200298	June 23, 1975, Emerg; April 1, 1982, Reg; March 16, 2015, Susp.	......do	Do.

* -do- =Ditto.
Code for reading third column: Emerg.—Emergency; Reg.—Regular; Susp.—Suspension.

Dated: February 6, 2015.

David L. Miller,

Associate Administrator, Federal Insurance and Mitigation Administration, Department of Homeland Security, Federal Emergency Management Agency.

[FR Doc. 2015–03954 Filed 2–25–15; 8:45 am]

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DEPARTMENT OF HOMELAND SECURITY

Coast Guard

46 CFR Part 401

[Docket No. USCG–2014–0481]

RIN 1625–AC22

Great Lakes Pilotage Rates—2015 Annual Review and Adjustment

AGENCY: Coast Guard, DHS.

ACTION: Final rule.

SUMMARY: The Coast Guard is adjusting rates for pilotage services on the Great Lakes, which were last amended in March 2014. The adjustments establish new base rates made in accordance with a full ratemaking procedure. Additionally, the Coast Guard exercises the discretion provided by Step 7 of the Appendix A methodology. The result is an upward adjustment to close the gap between revenues projected by this rulemaking and those collected by the pilot associations. Our proposed rates planned to maintain parity with the Canadian Great Lakes Pilotage Authority. While this continues to be our goal, we have since discovered a more significant challenge demonstrated by the recently completed revenue audits. This is a more pressing concern for the operation of safe, efficient, and reliable pilotage service on the Great Lakes than maintaining parity because it demonstrates that the pilot associations are unable to properly fund their operations. Also, we are implementing temporary surcharges to accelerate recoupment of necessary and reasonable training and investment costs for the pilot associations. This final rule promotes the Coast Guard's strategic goal of maritime safety.

DATES: This final rule is effective August 1, 2015.

ADDRESSES: Comments and material received from the public, as well as documents mentioned in this preamble as being available in the docket, are part of docket USCG–2014–0481 and are available for inspection or copying at the Docket Management Facility (M–30), U.S. Department of Transportation, West Building Ground Floor, Room W12–140, 1200 New Jersey Avenue SE., Washington, DC 20590, between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays. You may also find this docket on the Internet by going to *http://www.regulations.gov,* inserting USCG–2014–0481 in the ''Keyword'' box, and then clicking ''Search.''

FOR FURTHER INFORMATION CONTACT: If you have questions on this rule, call or email Mr. Todd Haviland, Director, Great Lakes Pilotage, Commandant (CG–WWM–2), Coast Guard; telephone 202–372–2037, email *Todd.A.Haviland@uscg.mil,* or fax 202–372–1914. If you have questions on viewing or submitting material to the docket, call Ms. Cheryl Collins, Program Manager, Docket Operations, telephone 202–366–9826.

SUPPLEMENTARY INFORMATION:

Table of Contents for Preamble

I. Abbreviations

AMOU American Maritime Officers Union
APA American Pilots Association
CFR Code of Federal Regulations
CPA Certified public accountant
CPI Consumer Price Index
E.O. Executive Order
FR Federal Register
GLPA Great Lakes Pilotage Association
MISLE Marine Information for Safety and Law Enforcement
MOA Memorandum of Arrangements
MOU Memorandum of Understanding
NAICS North American Industry Classification System
NPRM Notice of proposed rulemaking
OMB Office of Management and Budget
ROI Return on investment
§ Section symbol
U.S.C. United States Code
WGLPA Western Great Lakes Pilots Association

II. Regulatory History

On September 4, 2014, we published a notice of proposed rulemaking (NPRM) titled ''Great Lakes Pilotage Rates—2015 Annual Review and Adjustment'' in the **Federal Register** (79 FR 52602). We received 10 submissions on the NPRM from multiple sources, including pilotage associations, pilots, pilot organizations, and shippers. No public meeting was requested and none was held.

On December 1, 2014, we published the recently completed revenue audits of the pilot associations and reopened the public comment period in the **Federal Register** (79 FR 71082). We received 5 submissions on the revenue audits.

III. Basis and Purpose

The basis of this final rule is the Great Lakes Pilotage Act of 1960 (''the Act'') (46 U.S.C. Chapter 93), which requires U.S. vessels operating ''on register'' [1] and foreign vessels to use U.S. or Canadian registered pilots while transiting the U.S. waters of the St. Lawrence Seaway and the Great Lakes

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[1] ''On register'' means that the vessel's certificate of documentation has been endorsed with a registry endorsement, and therefore, may be employed in foreign trade or trade with Guam, American Samoa, Wake, Midway, or Kingman Reef. 46 U.S.C. 12105, 46 CFR 67.17.

system. 46 U.S.C. 9302(a)(1). The Act requires the Secretary to ''prescribe by regulation rates and charges for pilotage services, giving consideration to the public interest and the costs of providing the services.'' 46 U.S.C. 9303(f). Rates must be established or reviewed and adjusted each year, not later than March 1. Base rates must be established by a full ratemaking at least once every 5 years, and in years when base rates are not established, they must be reviewed and, if necessary, adjusted. *Id.* The Secretary's duties and authority under the Act have been delegated to the Coast Guard. Department of Homeland Security Delegation No. 0170.1, paragraph (92)(f). Coast Guard regulations implementing the Act appear in parts 401 through 404 of Title 46, Code of Federal Regulations (CFR). Procedures for use in establishing base rates appear in 46 CFR part 404, Appendix A, and procedures for annual review and adjustment of existing base rates appear in 46 CFR part 404, Appendix C.

The purpose of this final rule is to establish new base pilotage rates, using the methodology found in 46 CFR part 404, Appendix A.

IV. Background

The vessels affected by this final rule are those engaged in foreign trade upon the U.S. waters of the Great Lakes. United States and Canadian ''lakers,'' [2] which account for most commercial shipping on the Great Lakes, are not affected. 46 U.S.C. 9302.

The U.S. waters of the Great Lakes and the St. Lawrence Seaway are divided into three pilotage districts. Pilotage in each district is provided by an association certified by the Coast Guard Director of Great Lakes Pilotage to operate a pilotage pool. It is important to note that we do not control the actual compensation that pilots receive. The actual compensation is determined by each of the three district associations, which use different compensation practices.

District One, consisting of Areas 1 and 2, includes all U.S. waters of the St. Lawrence River and Lake Ontario. District Two, consisting of Areas 4 and 5, includes all U.S. waters of Lake Erie, the Detroit River, Lake St. Clair, and the St. Clair River. District Three, consisting of Areas 6, 7, and 8, includes all U.S. waters of the St. Mary's River, Sault Ste. Marie Locks, and Lakes Michigan, Huron, and Superior. Area 3 is the Welland Canal, which is serviced exclusively by the Canadian Great Lakes Pilotage Association (GLPA) and, accordingly, is not included in the United States rate structure. Areas 1, 5, and 7 have been designated by Presidential Proclamation, pursuant to the Act, to be waters in which pilots must, at all times, be fully engaged in the navigation of vessels in their charge. Areas 2, 4, 6, and 8 have not been so designated because they are open bodies of water. While working in those undesignated areas, pilots must only ''be on board and available to direct the navigation of the vessel at the discretion of and subject to the customary authority of the master.'' 46 U.S.C. 9302(a) (1) (B).

This final rule is a full ratemaking to establish new base pilotage rates, using the methodology found in 46 CFR part 404, Appendix A (hereafter ''Appendix A''). The last full ratemaking established the current base rates in March 2014 (79 FR 12084; Mar. 4, 2014). Among other things, the Appendix A methodology requires us to review detailed pilot association financial information, and we contract with independent accountants to assist in that review. We have now completed our review of the independent accountants' 2012 financial reports. The comments by the pilot associations on those reports and the independent accountants' final findings are discussed in our document titled ''Summary—Independent Accountant's Report on Pilot Association Expenses, with Pilot Association Comments and Accountant's Responses,'' which appears in the docket. In addition, we also use the independent accountant's review of pilot association revenues. The review, contracted by the Coast Guard, confirms the revenues of the pilot associations and it establishes a baseline of comparison between actual collected revenues and those projected by the rulemaking. The revenue reports also appear in the docket.

V. Discussion of Comments and Changes

We received 10 public submissions in response to the initial public comment period of our NPRM.

In the NPRM, the Coast Guard proposed a 2.5 percent across the board rate increase for the three pilotage districts and varying surcharge levels across the three districts. However, due to the completion of the revenue audits during the initial comment period, the Coast Guard extended the comment period for 30 days for the public to comment on the revenue audits. We received an additional five comments to our supplementary comment period focusing on the revenue audits. Of all the comments we received, 10 came from pilots or pilot associations, 3 came from industry groups, and 2 came from the union whose contract data provides benchmark data for pilot compensation.

Based on the comments and revenue audits, the Coast Guard is implementing a 10 percent across the board rate increase for the three pilotage districts and a 10 percent surcharge for each district. The reasoning behind the changes follows. Any further changes involving the Appendix A methodology will be published for notice and comment in a future rulemaking.

A. Ratemaking Methodology

Three commenters questioned various aspects of the ratemaking methodology. First, a pilot from the Western Great Lakes Pilots Association (WGLPA) questioned the application of bridge hours, as well as what the definition should include. We are currently working with the pilots, industry, and the American Pilots Association to finalize a new model to gauge necessary pilot strength. We plan to propose this model in a future rulemaking. We believe this coordinated, thorough process is needed to address the longstanding challenges with pilot recruitment and retention on the Great Lakes. Another pilot suggested that we need to incorporate multiple years of inflation in the rate to compensate for the time lapse between the conduct of the audits and the effective date of the rate. Under Step 1.C of the Appendix A methodology, the adjustment for inflation or deflation is a 1-year adjustment between the reported year (the audit year) and the succeeding navigation season. As we have stated in previous rulemakings, we are unable to incorporate a multiyear adjustment in the current methodology. We will consider changing this step in a future rulemaking.

Also, the same commenter questioned our application of benefits to the American Maritime Officers Union (AMOU) contract. This is a longstanding issue and the commenter argues that we should multiply first mate wages and benefits by 150 percent to determine designated waters compensation. We disagree and continue to maintain that the 150 percent applies only to wages; benefits are then added to the result. As part of our extensive review of the Appendix A methodology, we are actively seeking alternative compensation benchmarks to the AMOU contracts. Another commenter believes that compensation must exceed that of the AMOU in order to successfully recruit future pilots. We

[2] A ''laker'' is a commercial cargo vessel especially designed for and generally limited to use on the Great Lakes.

agree that actual pilot compensation should be sufficient to attract and retain U.S. Registered Pilots and we are actively pursuing alternatives to the AMOU contracts for a new pilot compensation standard. Two commenters suggested that the pilot strength called for in the rate is inadequate. As discussed previously, we believe the current bridge hour standard is not an effective means of establishing pilot strength. We plan to continue efforts to develop a new pilot strength model based on feedback from the stakeholders and will provide it for public comment in a future rulemaking. Another commenter questioned the effective date of the rate, saying that the rate should go into effect at the start of the season instead of aligning with the union contract start date of August 1. Since the AMOU contracts are part of the current Appendix A methodology, August 1 continues to be the effective date of the rate. We are open to adjusting the effective date of the rate in a future rulemaking in coordination with our expansive review of the methodology if doing so will enhance the delivery of safe, efficient, and reliable service.

Additionally, five commenters questioned use of our discretion under Step 7 of the Appendix A methodology. Two of those commenters, a member of industry and a pilot, disagree with our basis for Step 7 adjustments, citing insufficient support for our justification of parity adjustments under the Memorandum of Arrangements/ Memorandum of Understanding (MOA/ MOU) with Canada and Executive Order (E.O.) 13609. We disagree. The purpose of the MOA/MOU and E.O. 13609 is to work to better align U.S. and Canadian regulatory schemes. We agree that the new MOU has a less strict interpretation of parity, seeking comparable rates over identical ones. However, we believe that the revenue shortfall against projections uncovered in the recently completed audits calls for action. Our actions to seek comparable rates are undercut by overprojections and the inability of the current billing scheme to generate sufficient revenue to operate the pilotage associations. The third commenter, also a member of industry, asserts that the results of our calculations represent a ''serious flaw'' in the methodology. We plan to address the challenges with the current methodology in a future rulemaking. We neither believe the calculations resulting from the methodology in this rule are representative of economic conditions in the Great Lakes region, nor do they represent increased efficiencies of the pilot organizations. As such, we continue to utilize our Step 7 discretion to adjust them.

Another commenter stated that the Canadian GLPA is actually raising their rates only 1 percent rather than 2.5 percent as stated in the NPRM. While we continue to strive for comparability with Canadian rates, our greater concern currently is the gap in revenue. Thus, we seek to actively close the confirmed revenue gap between pilot association collections and Coast Guard projections by increasing the rate. The gap highlighted in the revenue audits points to an even greater disparity between U.S. and Canadian rates on the Great Lakes that must be addressed.

This leads into a discussion of the final commenter on the ratemaking methodology. The remaining commenter highlights the gap between revenues projected in the rate and those actually collected by the pilot association, as well as the second and third order effects of that gap. Based on a review of the recently completed revenue audits, we agree with the commenter that the gap between revenue projections in the rate and the revenues actually collected by the pilot associations presents an untenable situation. The revenue projections in the rate for each pilot association directly impact each association's ability to provide safe, efficient, and reliable service. Since the actual revenues collected by the associations fall well short of our projections, we are utilizing our Step 7 discretion to increase the rates in all areas by 10 percent. This rate increase will begin to address the significant shortfall in pilotage revenue against our projections. We believe that the current shortfall in revenue is a result of both bridge hour projections and a billing scheme that is not properly baselined to collect appropriate revenue. Rate increases to address the shortfall will continue to be separate and distinct from the temporary surcharges applied in the districts for training and investments.

B. AMOU Contracts

Five commenters–three pilots or pilots' representatives and two officials from the AMOU–addressed our use of AMOU contracts to estimate average annual compensation for U.S. Registered Pilots in Step 2.A of our Appendix A ratemaking methodology. Since the application of these contracts is currently the subject of pending litigation, we refrain from addressing these comments and will continue to utilize the AMOU contract data as we did in the 2013 and 2014 ratemakings.

C. Surcharge

Eight commenters–seven pilots or pilot associations and one member of industry–addressed the proposed surcharges in the NPRM. We received a comment from the Lakes Pilots Association, Inc. supporting the proposed surcharge for District Two. Commenters from both District One and District Three stated that they require two additional pilot applicants each above their authorized strength to deal with personnel turnover. We agree with both commenters. The pilotage associations are facing a wave of retirements, both expected and unexpected, and these additional applicant pilots are necessary to ensure the system continues to operate smoothly. The long lead time for pilot training necessitates that the pilot associations begin training now to address current pilot retirements as well as those projected for the next 24 months. Thus, we are using our surcharge authority to fund applicant pilots that exceed the current authorized pilot strength of the associations. Based on how three associations plan to compensate the applicants and the costs associated with training, we have estimated that a 5 percent surcharge is necessary to fund each applicant pilot. As you will see in the following discussion, we have established a 10 percent surcharge for each district in order to accelerate the costs associated with training 2 applicant pilots.

In the case of District One, we agree with the need for two applicant pilots above their authorized strength of 11 pilots to ensure safe, efficient, and reliable pilotage service. To fund these applicant pilots, we will increase their authorized surcharge to 10 percent.

We also agree with the need for two applicant pilots above their authorized strength of 15 pilots to ensure safe, efficient, and reliable pilotage service in District Three. Accordingly, we will fund two additional applicants above their authorized pilot strength and increase their authorized surcharge to 10 percent. As mentioned above, in conjunction with stakeholders, we are developing a new pilotage strength model that we will provide for public comment in a future rulemaking.

Finally, a member of industry questioned the need for pilot training surcharges and the authority to charge for expenses not yet incurred. The Coast Guard has the authority to prescribe rates and charges pursuant to 46 U.S.C. 9303. Temporary surcharge authority was implemented through regulation in the 2014 ratemaking cycle. See 78 FR 48376. The surcharges include funds for professional training, investments in pilotage technology, and the costs to train and fund six new applicant pilots across the system. These applicants will all be in place for the 2015 shipping season and thus, through the temporary surcharge, the Coast Guard is accelerating recoupment of these important expenses. We fully support investments in professional development and technology to enhance the safety, reliability, and efficiency of the system. Further, we believe the recruitment, funding, and training of applicant pilots before the retirement of current registered pilots is essential to the stability of the system and to achieve and maintain acceptable levels of service. Any overages in surcharge collection against the actual costs will be adjusted in the next year's rate. We discuss surcharges further in Part VI after our discussion of other comments.

D. Revenue Audits

We received three comments on the revenue audits—two from pilots and one from industry. Both pilot commenters approved of the revenue audits and asked the Coast Guard to adjust for the differences between actual and projected revenues. We agree with these comments and have adjusted our rate increase to 10 percent across all districts to begin aligning actual and projected revenues. Our discussion in Step 7 provides additional discussion on this topic. It is clear that the audits for the 2013 Appendix A rulemaking demonstrate a significant shortfall. Since we only have a single data point, we plan to increase the base rate to fill this gap over a multi-year period. Ten percent is reasonable because this is greater than inflation and begins to align the revenues needed to provide safe, efficient, and reliable service with the actual revenues that our rulemakings generate. We will also work to address this discrepancy in a future rulemaking regarding the methodology. We discuss this further in Step 7 of the methodology. The industry commenter disapproves of the open-ended nature of the comment period, seeking further clarity regarding our plan for use of the revenue audits and a better explanation of our use of discretion. We disagree. The comment period was set up to allow access by all parties to the revenue audits and to provide feedback to the Coast Guard regarding their review and incorporation into the ratemaking methodology. The revenue audits clearly point to a shortcoming in the billing scheme and methodology that significantly reduces actual revenue. Failure to act on the revenue audits would ignore the point ''and other supportable economic factors'' in Step 7 of the methodology. While we do not propose a solution for the methodology in this rulemaking, we are working to develop new proposals to address the significant hindrances of the current methodology. The discretion exercised in Step 7 seeks to maintain safe, efficient, and reliable pilotage service while we prepare a future rulemaking to address the current methodology.

E. Pilot Boats

We received two comments regarding purchase of new pilot boats. District Two submitted information regarding the purchase of a new boat for use in Detroit for consideration in the rate. However, based on the documents submitted, the pilots have reached an agreement with the Canadian GLPA and industry to fund the pilot boat through usage fees, not through the rate. As a result, the expenses associated with the new pilot boat will not be included in the 2015 rate. Similarly, a pilot from the WGLPA believes that infrastructure investment in a new dock and new pilot boat near Sault Sainte Marie, MI should be included in the rate. We disagree. Like District Two, the letter of intent signed between the WGLPA and the Canadian GLPA plans to recoup the cost of their infrastructure improvement through levied pilot boat fees, not the pilotage rate. We support and encourage the investment of both associations in badly needed infrastructure and capital assets but cannot allow recoupment of expenses already marked to be paid by industry separately.

VI. Summary of the Rule and Discussion of Methodology

A. Summary of the Rule

We are establishing new base pilotage rates in accordance with the methodology outlined in Appendix A to 46 CFR part 404. The new rates will be established by March 1, 2015 and become effective August 1, 2015. Our calculations under Steps 1 through 6 of Appendix A would result in an average 12 percent rate decrease. This rate decrease is not the result of increased efficiencies in providing pilotage services but rather is a result of changes to AMOU contract data.

Additionally, the recently completed revenue audits demonstrate a significant shortfall between revenues projected by the Coast Guard using the Appendix A methodology and those actually captured by the current billing scheme. This gap, explained further in our Step 7 discussion, demonstrates that a more significant rate increase is necessary to promote a standard safe, efficient, and reliable pilotage service by ensuring the pilot associations have sufficient actual revenue to continue operations. Therefore, we will continue to exercise the discretion outlined in Step 7, increasing rates by 10 percent to begin closing the gap between projected revenues and those actually collected by the pilot associations. Table 1 shows the percent change for the new rates for each area.

Secondly, we are implementing temporary surcharges for the pilot associations to recoup necessary and reasonable training and investment expenses incurred or that are expected to be incurred prior to the required March 1, 2015 publication of the final rule. Normally, these expenses would not be recognized until the 2016 annual ratemaking or later. By authorizing the temporary surcharges now, this action will accelerate the reimbursement for necessary and reasonable training and investment expenses. The surcharge will be authorized for the duration of the 2015 shipping season, which begins in March 2015. The value of the surcharges is based on the audited revenues of the pilot associations and the identified need to train two additional pilot applicants per District. This action will merely accelerate the recoupment of these expenses. At the conclusion of the 2015 shipping season, we would account for the monies generated by the surcharge and make adjustments as necessary to the operating expenses for the following year.

In District One, we are implementing a temporary surcharge of 10 percent to compensate pilots for $28,028.91 that the District One pilot association spent on training in 2013 and early 2014, as well as the anticipated $300,000 cost to train two new applicant pilots and prepare replacements for retiring pilots. We believe this training is necessary and reasonable to promote safe, efficient, and reliable pilotage on the Great Lakes and support the St. Lawrence Seaway Pilots Association's continued commitment to the training and professional development of their pilots.

Additionally, we are implementing a temporary surcharge of 10 percent in District Two to compensate pilots for $300,000 that the District Two pilot association spent training two applicant pilots in 2014. This is necessary and reasonable to allow the association to bring on new pilots in the face of upcoming retirements without adjusting the pilotage needs as determined by the ratemaking methodology. This surcharge will also accelerate the repayment of the association's investment in upgraded technology ($25,829.80) to enhance the situational awareness of pilots on the bridge. We believe this needed technology will assist in the safety, efficiency, and reliability of the system.

Next, we are implementing a temporary surcharge of 10 percent in District Three to compensate pilots for $26,950 that the District Three pilot association plans to spend on training at the conclusion of the 2014 shipping season. We believe this training is necessary and reasonable for the provision of safe pilotage service. This also compensates District Three for the anticipated $300,000 cost of training two additional pilot applicants to increase pilot strength and advance safe, efficient, and reliable pilotage service in the district.

All figures in the tables that follow are based on calculations performed either by an independent accountant or by the Director's [3] staff. In both cases, those calculations were performed using common commercial computer programs. Decimalization and rounding of the audited and calculated data affects the display in these tables but does not affect the calculations. The calculations are based on the actual figures, which are rounded for presentation in the tables.

TABLE 1—SUMMARY OF RATE ADJUSTMENTS BASED ON STEP 7 DISCRETION

If pilotage service is required in:	Then the percent change over the current rate is:
Area 1 (Designated waters)	10
Area 2 (Undesignated waters)	10
Area 4 (Undesignated waters)	10
Area 5 (Designated waters)	10
Area 6 (Undesignated waters)	10
Area 7 (Designated waters)	10
Area 8 (Undesignated waters)	10

B. Discussion of the Methodology

The Appendix A methodology provides seven steps, with sub-steps, for calculating rate adjustments. The following discussion describes those steps and sub-steps, and includes tables showing how we have applied them to the 2012 financial information supplied by the pilots association.

Step 1: Projection of Operating Expenses. In this step, we project the amount of vessel traffic annually. Based on that projection, we forecast the amount of necessary and reasonable operating expenses that pilotage rates should recover.

Step 1.A: Submission of Financial Information. This sub-step requires each pilot association to provide us with detailed financial information in accordance with 46 CFR part 403. The associations complied with this requirement, supplying 2012 financial information in 2013. This is the most current and complete data set we have available.

Step 1.B: Determination of Recognizable Expenses. This sub-step requires us to determine which reported association expenses will be recognized for ratemaking purposes, using the guidelines shown in 46 CFR 404.5. We contracted with an independent accountant to review the reported expenses and submit findings recommending which reported expenses should be recognized. The accountant also reviewed which reported expenses should be adjusted prior to recognition or disallowed for ratemaking purposes. The accountant's preliminary findings were sent to the pilot associations, they reviewed and commented on those findings, and the accountant then finalized the findings. The Director reviewed and accepted the final findings, resulting in the determination of recognizable expenses. The preliminary findings, the associations' comments on those findings, and the final findings are all discussed in the ''Summary—Independent Accountant's Report on Pilot Association Expenses, with Pilot Association Comments and Accountant's Responses,'' which appears in the docket. Tables 2 through 4 show each association's recognized expenses.

TABLE 2—RECOGNIZED EXPENSES FOR DISTRICT ONE

Reported expenses for 2012	Area 1	Area 2	Total
	St. Lawrence River	Lake Ontario	
Operating Expenses:			
Other Pilotage Costs:			
Pilot subsistence/Travel	$227,199	$137,315	$364,514
License insurance	0	0	0
Payroll taxes	62,038	48,452	110,490
Other	596	549	1,145
Total Other Pilotage Costs	289,833	186,316	476,149
Pilot Boat and Dispatch Costs:			
Pilot boat expense	108,539	95,405	203,944
Dispatch expense	0	0	0
Payroll taxes	13,429	11,804	25,233

[3] ''Director'' is the Coast Guard Director, Great Lakes Pilotage, which is used throughout this rule.

TABLE 2—RECOGNIZED EXPENSES FOR DISTRICT ONE—Continued

Reported expenses for 2012	Area 1 St. Lawrence River	Area 2 Lake Ontario	Total
Total Pilot and Dispatch Costs	121,968	107,209	229,177
Administrative Expenses:			
Legal—general counsel	1,369	1,281	2,650
Legal—lobbying	3,957	3,478	7,435
Insurance	21,907	18,998	40,905
Employee benefits	21,281	18,509	39,790
Payroll taxes	0	0	0
Other taxes	18,491	15,801	34,292
Travel	473	416	889
Depreciation/Auto leasing/Other	38,346	33,705	72,051
Interest	15,484	13,610	29,094
Dues and subscriptions	13,740	10,240	23,980
Utilities	4,549	3,897	8,446
Salaries	48,837	42,927	91,764
Accounting/Professional fees	4,683	4,317	9,000
Pilot Training	26,353	21,961	48,314
Other	10,689	8,974	19,663
Total Administrative Expenses	230,159	198,114	428,273
Total Operating Expenses	641,960	491,639	1,133,599
Adjustments (Independent certified public accountant (CPA)):			
Pilotage subsistence/Travel	(887)	(779)	(1,666)
Payroll taxes	(13,719)	(12,058)	(25,777)
Dues and subscriptions	(13,740)	(10,240)	(23,980)
TOTAL CPA ADJUSTMENTS	(28,346)	(23,077)	(51,423)
Adjustments (Director):			
American Pilots Association (APA) Dues	11,679	8,704	20,383
Pilot Training (surcharge)	(26,353)	(21,961)	(48,314)
Legal—lobbying	(3,957)	(3,478)	(7,435)
TOTAL DIRECTOR ADJUSTMENTS	(18,631)	(16,735)	(35,366)
Total Operating Expenses	594,983	451,827	1,046,810

Note: Numbers may not total due to rounding.

TABLE 3—RECOGNIZED EXPENSES FOR DISTRICT TWO

Reported Expenses for 2012	Area 4 Lake Erie	Area 5 Southeast Shoal to Port Huron, MI	Total
Operating Expenses:			
Other Pilotage Costs:			
Pilot subsistence/Travel	86,947	130,421	217,368
License insurance	6,168	9,252	15,420
Payroll taxes	42,218	63,328	105,546
Other	23,888	35,833	59,721
Total Other Pilotage Costs	159,221	238,834	398,055
Pilot Boat and Dispatch Costs:			
Pilot boat expense	131,285	196,930	328,215
Dispatch expense	6,600	9,900	16,500
Employee Benefits	48,310	72,465	120,775
Payroll taxes	7,412	11,119	18,531
Total Pilot and Dispatch Costs	193,607	290,414	484,021
Administrative Expenses:			
Legal—general counsel	2,054	3,082	5,136
Legal—lobbying	2,704	4,055	6,759
Legal—litigation	6,488	9,733	16,221
Office rent	26,275	39,413	65,688
Insurance	10,682	16,024	26,706
Employee benefits	16,452	24,678	41,130
Payroll taxes	4,143	6,216	10,359
Other taxes	12,546	18,819	31,365

TABLE 3—RECOGNIZED EXPENSES FOR DISTRICT TWO—Continued

Reported Expenses for 2012	Area 4	Area 5	Total
	Lake Erie	Southeast Shoal to Port Huron, MI	
Depreciation/Auto leasing/Other	9,074	13,610	22,684
Interest	2,989	4,483	7,472
Utilities	13,917	20,876	34,793
Salaries	36,252	54,377	90,629
Accounting/Professional fees	11,764	17,646	29,410
Pilot Training	0	0	0
Other	9,405	14,108	23,513
Total Administrative Expenses	164,745	247,120	411,865
Total Operating Expenses	517,573	776,368	1,293,941
Adjustments (Independent CPA):			
Pilot subsistence/Travel	(1,982)	(2,974)	(4,956)
Employee benefits	(3,585)	(5,378)	(8,963)
TOTAL CPA ADJUSTMENTS	(5,567)	(8,352)	(13,919)
Adjustments (Director):			
Federal Tax Allowance	(5,200)	(7,800)	(13,000)
APA Dues	7,344	11,016	18,360
Legal—lobbying	(2,704)	(4,055)	(6,759)
Legal—litigation	(6,488)	(9,733)	(16,221)
TOTAL DIRECTOR ADJUSTMENTS	(7,048)	(10,572)	(17,620)
Total Operating Expenses	504,958	757,444	1,262,402

Note: Numbers may not total due to rounding.

TABLE 4—RECOGNIZED EXPENSES FOR DISTRICT THREE

Reported expenses for 2012	Area 6	Area 7	Area 8	Total
	Lakes Huron and Michigan	St. Mary's River	Lake Superior	
Operating Expenses:				
Other Pilotage Costs:				
Pilot subsistence/Travel	$180,316	$77,278	$110,398	$367,992
License insurance	8,859	3,797	5,424	18,080
Payroll taxes	0	0	0	0
Other	2,875	1,232	1,760	5,867
Total Other Pilotage Costs	192,050	82,307	117,582	391,939
Pilot Boat and Dispatch Costs:				
Pilot boat expense	261,937	112,259	160,370	534,566
Dispatch expense	81,958	35,125	50,178	167,261
Payroll taxes	8,203	3,515	5,022	16,740
Total Pilot Boat and Dispatch Costs	352,098	150,899	215,570	718,567
Administrative Expenses:				
Legal—lobbying	4,304	1,845	2,635	8,784
Office rent	4,851	2,079	2,970	9,900
Insurance	6,469	2,773	3,961	13,203
Employee benefits	77,348	33,149	47,356	157,854
Payroll taxes	5,404	2,316	3,309	11,029
Other taxes	941	403	576	1,920
Depreciation/Auto leasing	17,462	7,484	10,691	35,637
Interest	2,692	1,154	1,648	5,494
Utilities	20,950	8,979	12,827	42,756
Salaries	54,003	23,144	33,063	110,210
Accounting/Professional fees	13,157	5,639	8,055	26,851
Pilot Training	0	0	0	0
Other	4,657	1,996	2,851	9,504
Total Administrative Expenses	212,238	90,961	129,942	433,141
Total Operating Expenses	756,386	324,167	463,094	1,543,647
Adjustments (Independent CPA):				
Pilot subsistence/travel	(5,303)	(2,273)	(3,247)	(10,823)

TABLE 4—RECOGNIZED EXPENSES FOR DISTRICT THREE—Continued

Reported expenses for 2012	Area 6 Lakes Huron and Michigan	Area 7 St. Mary's River	Area 8 Lake Superior	Total
Payroll taxes	44,613	19,120	27,314	91,046
Other taxes	(1,761)	(755)	(1,078)	(3,594)
Other	(637)	(273)	(390)	(1,300)
TOTAL CPA ADJUSTMENTS	36,912	15,819	22,599	75,329
Adjustments (Director):				
APA dues	11,695	5,012	7,160	23,868
Legal—lobbying	(4,304)	(1,845)	(2,635)	(8,784)
TOTAL DIRECTOR ADJUSTMENTS	7,391	3,167	4,525	15,084
Total Operating Expenses	800,689	343,153	490,218	1,634,060

Note: Numbers may not total due to rounding.

Step 1.C: Adjustment for Inflation or Deflation. In this sub-step, we project rates of inflation or deflation for the succeeding navigation season. Because we used 2012 financial information, the ''succeeding navigation season'' for this ratemaking is 2013. We based our inflation adjustment of 1.4 percent on the 2013 change in the Consumer Price Index (CPI) for the Midwest Region of the United States, which can be found at *http://www.bls.gov/xg_shells/ro5xg01.htm.* This adjustment appears in Tables 5 through 7.

The Coast Guard is aware that the current annual adjustment for inflation does not account for the value of money over time. We are working on a solution to allow for a better approximation of actual costs.

TABLE 5—INFLATION ADJUSTMENT, DISTRICT ONE

Reported expenses for 2012		Area 1 St. Lawrence River		Area 2 Lake Ontario		Total
Total Operating Expenses:		$594,983		$451,827		$1,046,810
2013 change in the CPI for the Midwest Region of the United States	×	.014	×	.014	×	.014
Inflation Adjustment	=	$8,330	=	$6,326	=	$14,655

TABLE 6—INFLATION ADJUSTMENT, DISTRICT TWO

Reported expenses for 2012		Area 4 Lake Erie		Area 5 Southeast Shoal to Port Huron, MI		Total
Total Operating Expenses		$504,958		$757,444		$1,262,402
2013 change in the CPI for the Midwest Region of the United States	×	.014	×	.014	×	.014
Inflation Adjustment	=	$7,069	=	$10,604	=	$17,674

TABLE 7—INFLATION ADJUSTMENT, DISTRICT THREE

Reported expenses for 2012		Area 6 Lakes Huron and Michigan		Area 7 St. Mary's River		Area 8 Lake Superior		Total
Total Operating Expenses		$800,689		$343,153		$490,218		$1,634,060
2013 change in the CPI for the Midwest Region of the United States	×	.014	×	.014	×	.014	×	.014
Inflation Adjustment	=	$11,210	=	$4,804	=	$6,863	=	$22,877

Step 1.D: Projection of Operating Expenses. In this final sub-step of Step 1, we project the operating expenses for each pilotage area on the basis of the preceding sub-steps and any other foreseeable circumstances that could affect the accuracy of the projection.

For District One, the projected operating expenses are based on the calculations from Steps 1.A through 1.C. Table 8 shows these projections.

TABLE 8—PROJECTED OPERATING EXPENSES, DISTRICT ONE

Reported expenses for 2012		Area 1 St. Lawrence River		Area 2 Lake Ontario		Total
Total operating expenses		$594,983		$451,827		$1,046,810
Inflation adjustment 1.4%	+	$8,330	+	$6,326	+	$14,655
Total projected expenses for 2015 pilotage season	=	$603,313	=	$458,153	=	$1,061,465

Note: Numbers may not total due to rounding.

In District Two the projected operating expenses are based on the calculations from Steps 1.A through 1.C. Table 9 shows these projections.

TABLE 9—PROJECTED OPERATING EXPENSES, DISTRICT TWO

Reported expenses for 2012		Area 4 Lake Erie		Area 5 Southeast Shoal to Port Huron, MI		Total
Total Operating Expenses		$504,958		$757,444		$1,262,402
Inflation adjustment 1.4%	+	7,069	+	10,604	+	17,674
Total projected expenses for 2015 pilotage season	=	512,027	=	768,048	=	1,280,076

In District Three, projected operating expenses are based on the calculations from Steps 1.A through 1.C. Table 10 shows these projections.

TABLE 10—PROJECTED OPERATING EXPENSES, DISTRICT THREE

Reported expenses for 2012		Area 6 Lakes Huron and Michigan		Area 7 St. Mary's River		Area 8 Lake Superior		Total
Total Expenses		$800,689		$343,153		$490,218		$1,634,060
Inflation adjustment 1.4%	+	11,210	+	4,804	+	6,863	+	22,877
Total projected expenses for 2015 pilotage season	=	811,899	=	347,957	=	497,081	=	1,656,937

Step 2: Projection of Target Pilot Compensation. In Step 2, we project the annual amount of target pilot compensation that pilotage rates should provide in each area. These projections are based on our latest information on the conditions that will prevail in 2015.

Step 2.A: Determination of Target Rate of Compensation. Target pilot compensation for pilots in undesignated waters approximates the average annual compensation for first mates on U.S. Great Lakes vessels. Compensation is determined based on the most current union contracts and includes wages and benefits received by first mates. We calculate target pilot compensation on designated waters by multiplying the average first mates' wages by 150 percent and then adding the average first mates' benefits.

We rely upon union contract data provided by the AMOU, which has agreements with three U.S. companies engaged in Great Lakes shipping. We derive the data from two separate AMOU contracts—we refer to them as Agreements A and B—and apportion the compensation provided by each agreement according to the percentage of tonnage represented by companies under each agreement. Agreement A applies to vessels operated by Key Lakes, Inc., and Agreement B applies to vessels operated by American Steamship Co. and Mittal Steel USA, Inc.

Agreements A and B both expire on July 31, 2016. The AMOU has set the daily aggregate rate, including the daily wage rate, vacation pay, pension plan contributions, and medical plan contributions effective August 1, 2015, as follows: (1) In undesignated waters, $632.12 for Agreement A and $624.34 for Agreement B; and (2) In designated waters, $870.05 for Agreement A and $856.42 for Agreement B.

Because we are interested in annual compensation, we must convert these daily rates. We use a 270-day multiplier which reflects an average 30-day month, over the 9 months of the average shipping season. Table 11 shows our calculations using the 270-day multiplier.

TABLE 11—PROJECTED ANNUAL AGGREGATE RATE COMPONENTS

Aggregate Rate–Wages and Vacation, Pension, and Medical Benefits	
Pilots on undesignated waters	
Agreement A:	
$632.12 daily rate × 270 days	$170,672.40

TABLE 11—PROJECTED ANNUAL AGGREGATE RATE COMPONENTS—Continued

Agreement B:	
$624.34 daily rate × 270 days	168,571.80
Pilots on designated waters	
Agreement A:	
$870.05 daily rate × 270 days	234,913.50
Agreement B:	
$856.42 daily rate × 270 days	231,233.40

We apportion the compensation provided by each agreement according to the percentage of tonnage represented by companies under each agreement. Agreement A applies to vessels operated by Key Lakes, Inc., representing approximately 30 percent of tonnage, and Agreement B applies to vessels operated by American Steamship Co. and Mittal Steel USA, Inc., representing approximately 70 percent of tonnage. Table 12 provides details.

TABLE 12—SHIPPING TONNAGE APPORTIONED BY CONTRACT

Company	Agreement A	Agreement B
American Steamship Company		815,600
Mittal Steel USA, Inc		38,826
Key Lakes, Inc	361,385	
Total tonnage, each agreement	361,385	854,426
Percent tonnage, each agreement	361,385 ÷ 1,215,811 = 29.7238%	854,426 ÷ 1,215,811 = 70.2762%

We use the percentages from Table 12 to apportion the projected compensation from Table 11. This gives us a single tonnage-weighted set of figures. Table 13 shows our calculations.

TABLE 13—TONNAGE-WEIGHTED WAGE AND BENEFIT COMPONENTS

		Undesignated waters		Designated waters
Agreement A:				
Total wages and benefits		$170,672.40		$234,913.50
Percent tonnage	×	29.7238%	×	29.7238%
Total	=	$50,730	=	$69,825
Agreement B:				
Total wages and benefits		$168,571.80		$231,233.40
Percent tonnage	×	70.2762%	×	70.2762%
Total	=	$118,466	=	$162,502
Projected Target Rate of Compensation:				
Agreement A total weighted average wages and benefits		$50,730		$69,825
Agreement B total weighted average wages and benefits	+	$118,466	+	$162,502
Total	=	$169,196	=	$232,327

Step 2.B: Determination of the Number of Pilots Needed. Subject to adjustment by the Director to ensure uninterrupted service or for other reasonable circumstances, we determine the number of pilots needed for ratemaking purposes in each area through dividing projected bridge hours for each area by either the 1,000 (designated waters) or 1,800 (undesignated waters) bridge hours specified in Step 2.B. We round the mathematical results and express our determination as a whole number of pilots.

According to 46 CFR part 404, Appendix A, Step 2.B(1), bridge hours are the number of hours a pilot is aboard a vessel providing pilotage service. For that reason, and as we explained most recently in the 2011 ratemaking's final rule (76 FR 6351 at 6352 col. 3 (Feb. 4, 2011)), we do not include, and never have included, pilot delay, detention, or cancellation in calculating bridge hours. Projected bridge hours are based on the vessel traffic that pilots are expected to serve. We use historical data, input from the pilots and industry, periodicals and trade magazines, and information from conferences to project demand for pilotage services for the coming year.

In our 2014 final rule, we determined that 36 pilots would be needed for ratemaking purposes. For 2015, we project 36 pilots is still the proper number to use for ratemaking purposes. The total pilot authorization strength includes five pilots in Area 2, where rounding up alone would result in only four pilots. For the same reasons we explained at length in the 2008 ratemaking final rule (74 FR 220 at 221–22 (Jan. 5, 2009)), we have determined that this adjustment is essential for ensuring uninterrupted pilotage service in Area 2. Table 14 shows the bridge hours we project will be needed for each area and our calculations to determine the whole number of pilots needed for ratemaking purposes.

TABLE 14—NUMBER OF PILOTS NEEDED

Pilotage area	Projected 2015 bridge hours		Divided by 1,000 (designated waters) or 1,800 (undesignated waters)		Calculated value of pilot demand	Pilots needed (total = 36)
Area 1 (Designated waters)	5,116	÷	1,000	=	5.116	6
Area 2 (Undesignated waters)	5,429	÷	1,800	=	3.016	5
Area 4 (Undesignated waters)	5,814	÷	1,800	=	3.230	4
Area 5 (Designated waters)	5,052	÷	1,000	=	5.052	6
Area 6 (Undesignated waters)	9,611	÷	1,800	=	5.339	6
Area 7 (Designated waters)	3,023	÷	1,000	=	3.023	4
Area 8 (Undesignated waters)	7,540	÷	1,800	=	4.189	5

Step 2.C: Projection of Target Pilot Compensation. In Table 15, we project total target pilot compensation separately for each area by multiplying the number of pilots needed in each area, as shown in Table 14, by the target pilot compensation shown in Table 13.

TABLE 15—PROJECTION OF TARGET PILOT COMPENSATION BY AREA

Pilotage area	Pilots needed (total = 36)		Target rate of pilot compensation		Projected target pilot compensation
Area 1 (Designated waters)	6	×	$232,327	=	$1,393,964
Area 2 (Undesignated waters)	5	×	169,196	=	845,981
Area 4 (Undesignated waters)	4	×	169,196	=	676,785
Area 5 (Designated waters)	6	×	232,327	=	1,393,964
Area 6 (Undesignated waters)	6	×	169,196	=	1,015,177
Area 7 (Designated waters)	4	×	232,327	=	929,309
Area 8 (Undesignated waters)	5	×	169,196	=	845,981

Note: Numbers may not total due to rounding.

Steps 3 and 3.A: Projection of Revenue. In Steps 3 and 3.A., we project the revenue that would be received in 2015 if demand for pilotage services matches the bridge hours we projected in Table 14, and if 2014 pilotage rates are left unchanged. Table 16 shows this calculation.

TABLE 16—PROJECTION OF REVENUE BY AREA

Pilotage area	Projected 2015 bridge hours		2014 Pilotage rates		Revenue projection for 2015
Area 1 (Designated waters)	5,116	×	$472.50	=	$2,417,285
Area 2 (Undesignated waters)	5,429	×	291.96	=	1,585,032
Area 4 (Undesignated waters)	5,814	×	210.40	=	1,223,262
Area 5 (Designated waters)	5,052	×	521.64	=	2,635,314
Area 6 (Undesignated waters)	9,611	×	204.95	=	1,969,800
Area 7 (Designated waters)	3,023	×	495.01	=	1,496,427
Area 8 (Undesignated waters)	7,540	×	191.34	=	1,442,677
Total					12,769,797

Note: Numbers may not total due to rounding.

Step 4: Calculation of Investment Base. In this step, we calculate each association's investment base, which is the recognized capital investment in the assets employed by the association to support pilotage operations. This step uses a formula set out in 46 CFR part 404, Appendix B. The first part of the formula identifies each association's total sources of funds. Tables 17 through 19 follow the formula up to that point.

TABLE 17—TOTAL SOURCES OF FUNDS, DISTRICT ONE

		Area 1		Area 2
Recognized Assets:				
Total Current Assets		$532,237		$467,833
Total Current Liabilities	–	61,808	–	54,329
Current Notes Payable	+	23,413	+	20,579

TABLE 17—TOTAL SOURCES OF FUNDS, DISTRICT ONE—Continued

		Area 1		Area 2
Total Property and Equipment (NET)	+	445,044	+	391,191
Land	−	11,727	−	10,308
Total Other Assets	+	0	+	0
Total Recognized Assets	=	927,159	=	814,966
Non-Recognized Assets:				
Total Investments and Special Funds	+	6,452	+	5,672
Total Non-Recognized Assets	=	6,452	=	5,672
Total Assets:				
Total Recognized Assets		927,159		814,966
Total Non-Recognized Assets	+	6,452	+	5,672
Total Assets	=	933,611	=	820,638
Recognized Sources of Funds:				
Total Stockholder Equity		659,141		579,380
Long-Term Debt	+	262,785	+	230,986
Current Notes Payable	+	23,413	+	20,579
Advances from Affiliated Companies	+	0	+	0
Long-Term Obligations—Capital Leases	+	0	+	0
Total Recognized Sources	=	945,339	=	830,945
Non-Recognized Sources of Funds:				
Pension Liability		0		0
Other Non-Current Liabilities	+	0	+	0
Deferred Federal Income Taxes	+	10,675	+	9,383
Other Deferred Credits	+	0	+	0
Total Non-Recognized Sources	=	10,675	=	9,383
Total Sources of Funds:				
Total Recognized Sources		945,339		830,945
Total Non-Recognized Sources	+	10,675	+	9,383
Total Sources of Funds	=	956,014	=	840,328

Note: Numbers may not total due to rounding.

TABLE 18—TOTAL SOURCES OF FUNDS, DISTRICT TWO

		Area 4		Area 5
Recognized Assets:				
Total Current Assets		498,456		747,683
Total Current Liabilities	−	494,410	−	741,614
Current Notes Payable	+	33,962	+	50,942
Total Property and Equipment (NET)	+	436,063	+	654,094
Land	−	0	−	0
Total Other Assets	+	60,418	+	90,627
Total Recognized Assets	=	534,488	=	801,733
Non-Recognized Assets:				
Total Investments and Special Funds	+	0	+	0
Total Non-Recognized Assets	=	0	=	0
Total Assets:				
Total Recognized Assets		534,488		801,733
Total Non-Recognized Assets	+	0	+	0
Total Assets	=	534,488	=	801,733
Recognized Sources of Funds:				
Total Stockholder Equity		85,846		128,768
Long-Term Debt	+	414,681	+	622,022
Current Notes Payable	+	33,962	+	50,942
Advances from Affiliated Companies	+	0	+	0

TABLE 18—TOTAL SOURCES OF FUNDS, DISTRICT TWO—Continued

		Area 4		Area 5
Long-Term Obligations—Capital Leases	+	0	+	0
Total Recognized Sources	=	534,488	=	801,733
Non-Recognized Sources of Funds:				
Pension Liability		0		0
Other Non-Current Liabilities	+	0	+	0
Deferred Federal Income Taxes	+	0	+	0
Other Deferred Credits	+	0	+	0
Total Non-Recognized Sources	=	0	=	0
Total Sources of Funds:				
Total Recognized Sources		534,488		801,733
Total Non-Recognized Sources	+	0	+	0
Total Sources of Funds	=	534,488	=	801,733

Note: Numbers may not total due to rounding.

TABLE 19—TOTAL SOURCES OF FUNDS, DISTRICT THREE

		Area 6		Area 7		Area 8
Recognized Assets:						
Total Current Assets		656,459		281,340		401,914
Total Current Liabilities	–	82,775	–	35,475	–	50,679
Current Notes Payable	+	7,730	+	3,313	+	4,733
Total Property and Equipment (NET)	+	19,611	+	8,405	+	12,007
Land	–	0	–	0	–	0
Total Other Assets	+	490	+	210	+	300
Total Recognized Assets	=	601,515	=	257,793	=	368,275
Non-Recognized Assets:						
Total Investments and Special Funds	+	0	+	0	+	0
Total Non-Recognized Assets	=	0	=	0	=	0
Total Assets:						
Total Recognized Assets		601,515		257,793		368,275
Total Non-Recognized Assets	+	0	+	0	+	0
Total Assets	=	601,515	=	257,793	=	368,275
Recognized Sources of Funds:						
Total Stockholder Equity		586,300		251,271		358,959
Long-Term Debt	+	7,485	+	3,208	+	4,583
Current Notes Payable	+	7,730	+	3,313	+	4,733
Advances from Affiliated Companies	+	0	+	0	+	0
Long-Term Obligations – Capital Leases	+	0	+	0	+	0
Total Recognized Sources	=	601,515	=	257,793	=	368,275
Non-Recognized Sources of Funds:						
Pension Liability		0		0		0
Other Non-Current Liabilities	+	0	+	0	+	0
Deferred Federal Income Taxes	+	0	+	0	+	0
Other Deferred Credits	+	0	+	0	+	0
Total Non-Recognized Sources	=	0	=	0	=	0
Total Sources of Funds:						
Total Recognized Sources		601,515		257,792		368,275
Total Non-Recognized Sources	+	0	+	0	+	0
Total Sources of Funds	=	601,515	=	257,792	=	368,275

Note: Numbers may not total due to rounding.

Tables 17 through 19 also relate to the second part of the formula for calculating the investment base. The second part establishes a ratio between recognized sources of funds and total sources of funds. Since non-recognized sources of funds (sources we do not recognize as required to support pilotage operations) only exist for District One for this year's rulemaking, the ratio between recognized sources of funds and total sources of funds is 1:1 (or a multiplier of 1) for Districts Two and Three. District One has a multiplier of 0.99. Table 20 applies the multiplier of 0.99 and 1 as necessary and shows the investment base for each association. Table 20 also expresses these results by area, because area results will be needed in subsequent steps.

TABLE 20—INVESTMENT BASE BY AREA AND DISTRICT

District	Area	Total recognized assets ($)	Recognized sources of funds ($)	Total sources of funds ($)	Multiplier (ratio of recognized to total sources)	Investment base ($) [1]
One	1	927,159	945,339	956,014	0.99	916,806
	2	814,966	830,945	840,328	0.99	805,866
Total						1,722,672
Two [2]	4	534,488	534,488	534,488	1	534,488
	5	801,733	801,733	801,733	1	801,733
Total						1,336,221
Three	6	601,515	601,515	601,515	1	601,515
	7	257,793	257,792	257,792	1	257,793
	8	368,275	368,275	368,275	1	368,275
Total						1,227,581

[1] "Investment base" = "Total recognized assets" × "Multiplier (ratio of recognized to total sources)".
[2] The pilot associations that provide pilotage services in Districts One and Three operate as partnerships. The pilot association that provides pilotage service for District Two operates as a corporation.
Note: Numbers may not total due to rounding.

Step 5: Determination of Target Rate of Return. We determine a market-equivalent return on investment (ROI) that will be allowed for the recognized net capital invested in each association by its members. We do not recognize capital that is unnecessary or unreasonable for providing pilotage services. There are no non-recognized investments in this year's calculations. The allowed ROI is based on the preceding year's average annual rate of return for new issues of high-grade corporate securities. For 2013, the preceding year, the allowed ROI was 4.24 percent, based on the average rate of return for that year on Moody's AAA corporate bonds, which can be found at *http://research.stlouisfed.org/fred2/series/AAA/downloaddata?cid=119.*

Step 6: Adjustment Determination. The first part of the adjustment determination requires an initial calculation, applying a formula described in Appendix A. The formula uses the results from Steps 1, 2, 3, and 4 to project the ROI that can be expected in each area if no further adjustments are made. This calculation is shown in Tables 21 through 23.

TABLE 21—PROJECTED ROI, AREAS IN DISTRICT ONE

		Area 1		Area 2
Revenue (from Step 3)		$2,417,285		$1,585,032
Operating Expenses (from Step 1)	−	$603,313	−	$458,153
Pilot Compensation (from Step 2)	−	$1,393,964	−	$845,981
Operating Profit/(Loss)	=	$420,009	=	$280,899
Interest Expense (from audits)	−	$15,484	−	$13,610
Earnings Before Tax	=	$404,525	=	$267,289
Federal Tax Allowance	−	$0	−	$0
Net Income	=	$404,525	=	$267,289
Return Element (Net Income + Interest)		$420,009		$280,899
Investment Base (from Step 4)	÷	$916,806	÷	$805,866
Projected Return on Investment	=	0.46	=	0.35

TABLE 22—PROJECTED ROI, AREAS IN DISTRICT TWO

		Area 4		Area 5
Revenue (from Step 3)		$1,223,262		$2,635,314
Operating Expenses (from Step 1)	−	$512,027	−	$768,048
Pilot Compensation (from Step 2)	−	$676,785	−	$1,393,964
Operating Profit/(Loss)	=	$34,450	=	$473,302
Interest Expense (from audits)	−	$2,989	−	$4,483
Earnings Before Tax	=	$31,461	=	$468,819

TABLE 22—PROJECTED ROI, AREAS IN DISTRICT TWO—Continued

		Area 4		Area 5
Federal Tax Allowance	−	$5,200	−	$7,800
Net Income	=	$26,261	=	$461,019
Return Element (Net Income + Interest)		$29,250		$465,502
Investment Base (from Step 4)	÷	$534,488	÷	$801,733
Projected Return on Investment	=	0.05	=	0.58

TABLE 23—PROJECTED ROI, AREAS IN DISTRICT THREE

		Area 6		Area 7		Area 8
Revenue (from Step 3)		$1,969,800		$1,496,427		$1,442,677
Operating Expenses (from Step 1)	−	$811,899	−	$347,957	−	$497,081
Pilot Compensation (from Step 2)	−	$1,015,177	−	$929,309	−	$845,981
Operating Profit/(Loss)	=	$142,724	=	$219,161	=	$99,615
Interest Expense (from audits)	−	$2,692	−	$1,154	−	$1,648
Earnings Before Tax	=	$140,032	=	$218,007	=	$97,967
Federal Tax Allowance	−	$0	−	$0	−	$0
Net Income	=	$140,032	=	$218,007	=	$97,967
Return Element (Net Income + Interest)		$142,724		$219,161		$99,615
Investment Base (from Step 4)	÷	$601,515	÷	$257,793	÷	$368,275
Projected Return on Investment	=	0.24	=	0.85	=	0.27

The second part required for Step 6 compares the results of Tables 21 through 23 with the target ROI (4.24 percent) we obtained in Step 5 to determine if an adjustment to the base pilotage rate is necessary. Table 24 shows this comparison for each area.

TABLE 24—COMPARISON OF PROJECTED ROI AND TARGET ROI, BY AREA[1]

	Area 1	Area 2	Area 4	Area 5	Area 6	Area 7	Area 8
	St. Lawrence River	Lake Ontario	Lake Erie	Southeast Shoal to Port Huron, MI	Lakes Huron and Michigan	St. Mary's River	Lake Superior
Projected return on investment	0.4581	0.3486	0.0547	0.5806	0.2373	0.8501	0.2705
Target return on investment	0.0424	0.0424	0.0424	0.0424	0.0424	0.0424	0.0424
Difference in return on investment	0.4157	0.3062	0.0123	0.5382	0.1949	0.8077	0.2281

[1] **Note:** Decimalization and rounding of the target ROI affects the display in this table but does not affect our calculations, which are based on the actual figure.

Because Table 24 shows a significant difference between the projected and target ROIs, an adjustment to the base pilotage rates is necessary. Step 6 now requires us to determine the pilotage revenues that are needed to make the target return on investment equal to the projected return on investment. This calculation is shown in Table 25. It adjusts the investment base we used in Step 4, multiplying it by the target ROI from Step 5, and applies the result to the operating expenses and target pilot compensation determined in Steps 1 and 2.

TABLE 25—REVENUE NEEDED TO RECOVER TARGET ROI, BY AREA

Pilotage area	Operating expenses (Step 1)		Target pilot compensation (Step 2)		Investment base (Step 4) × 4.24% (Target ROI Step 5)		Federal tax allowance		Revenue needed
Area 1 (Designated waters)	$603,313	+	1,393,964	+	38,873	+	0	=	2,036,149
Area 2 (Undesignated waters)	$458,153	+	845,981	+	34,169	+	0	=	1,338,302
Area 4 (Undesignated waters)	$512,027	+	676,785	+	22,662	+	5,200	=	1,216,674
Area 5 (Designated waters)	$768,048	+	1,393,964	+	33,993	+	7,800	=	2,203,805
Area 6 (Undesignated waters)	$811,899	+	1,015,177	+	25,504	+	0	=	1,852,580

TABLE 25—REVENUE NEEDED TO RECOVER TARGET ROI, BY AREA—Continued

Pilotage area	Operating expenses (Step 1)		Target pilot compensation (Step 2)		Investment base (Step 4) × 4.24% (Target ROI Step 5)		Federal tax allowance		Revenue needed
Area 7 (Designated waters)	$347,957	+	929,309	+	10,930	+	0	=	1,288,197
Area 8 (Undesignated waters)	$497,081	+	845,981	+	15,615	+	0	=	1,358,677
Total	$3,998,479	+	7,101,160	+	181,747	+	13,000	=	11,294,385

The ''Revenue Needed'' column of Table 25 is less than the revenue we projected in Table 16.

Step 7: Adjustment of Pilotage Rates. Finally, we calculate rate adjustments by dividing the Step 6 revenue needed (Table 25) by the Step 3 revenue projection (Table 16), to give us a rate multiplier for each area. These rate adjustments are subject to adjustment based on the requirements of agreements between the United States and Canada and adjustment for other supportable circumstances. Tables 26 through 28 show these calculations.

TABLE 26—RATE MULTIPLIER, AREAS IN DISTRICT ONE

Ratemaking projections		Area 1		Area 2
		St. Lawrence River		Lake Ontario
Revenue Needed (from Step 6)		$2,036,149		$1,338,302
Revenue (from Step 3)	÷	$2,417,285	÷	$1,585,032
Rate Multiplier	=	0.8423	=	0.8443

TABLE 27—RATE MULTIPLIER, AREAS IN DISTRICT TWO

Ratemaking projections		Area 4		Area 5
		Lake Erie		Southeast Shoal to Port Huron, MI
Revenue Needed (from Step 6)		$1,216,674		$2,203,805
Revenue (from Step 3)	÷	$1,223,262	÷	$2,635,314
Rate Multiplier	=	0.9946	=	0.8363

TABLE 28—RATE MULTIPLIER, AREAS IN DISTRICT THREE

Ratemaking projections		Area 6		Area 7		Area 8
		Lakes Huron and Michigan		St. Mary's River		Lake Superior
Revenue Needed (from Step 6)		$1,825,580		$1,288,197		$1,358,677
Revenue (from Step 3)	÷	$1,969,800	÷	$1,496,427	÷	$1,442,677
Rate Multiplier	=	0.9405	=	0.8608	=	0.9418

Note: Numbers may not total due to rounding.

We calculate a rate multiplier for adjusting the basic rates and charges described in 46 CFR 401.420 and 401.428, and it is applicable in all areas. We divide total revenue needed (Step 6, Table 25) by total projected revenue (Steps 3 and 3.A, Table 16). Table 29 shows this calculation.

TABLE 29—RATE MULTIPLIER FOR BASIC RATES AND CHARGES IN 46 CFR 401.420 AND 401.428

Ratemaking Projections:		
Total Revenue Needed (from Step 6)		$11,294,385
Total revenue (from Step 3)	÷	$12,769,797
Rate Multiplier	=	0.884

Using this table, we calculate rates for cancellation, delay, or interruption in rendering services (46 CFR 401.420) 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 (46 CFR 401.428). The result is a decrease by 11.55 percent in all areas.

Without further action, the existing rates we established in our 2014 final rule would then be multiplied by the rate multipliers from Tables 29 through 31 to calculate the area by area rate changes for 2015. The resulting 2015 rates across the Great Lakes, on average, would then decrease by approximately 12 percent from the 2014 rates. This decrease is not due to increased efficiencies in pilotage services but rather a result of adjustments to AMOU contract data.

We decline to impose this decrease because recently completed independent audits of pilot association revenues detail a significant gap between revenues projected by the Coast Guard and those actually collected by the pilot associations. Implementing a rate decrease would further widen this disparity and adversely impact the provision of safe, efficient, and reliable pilotage service on the Great Lakes. In light of the revenue studies, our initial proposal in the NPRM to raise rates 2.5 percent in order to gain parity with the Canadian GLPA now appears insufficient to ensure the funding of safe, efficient, and reliable pilotage service. In 46 U.S.C. 9303(f), the statute states ''The Secretary shall prescribe by regulation rates and charges for pilotage services, giving consideration to the public interest and the costs of providing the services.'' We believe the public interest is best served through promotion of safe, efficient, and reliable pilotage service. Sufficient revenue to fund safe, efficient, and reliable pilotage operations are considered integral to the public interest. Table 30 demonstrates the results of the revenue audits compared to our projections.

TABLE 30—REVENUE GAP

District	Ratemaking projections (2015)	Actual revenue revenue audits (2013)	Revenue shortfall (projections minus actual)
1	$4,002,317	$3,406,164	$596,153
2	3,858,576	3,169,377	689,199
3	4,908,904	4,323,965	584,939

Further, the gap captured in Table 30 actually underestimates the revenue gap because the projections of the current rulemaking rely on the alterations of proprietary union contracts. Table 31 illustrates the average U.S. Registered Pilot compensation, assuming all revenue remaining after expenses is distributed as compensation.

TABLE 31—2013 AVERAGE ACTUAL COMPENSATION *

District	Revenues	Expenses	Total available for compensation	Number of pilots **	Approximate compensation per pilot
1	$3,406,164	$1,272,365	$2,133,799	11	$193,982
2	3,169,377	1,461,438	1,707,939	10	170,794
3	4,323,965	1,778,118	2,545,847	17	149,756
Total	10,899,506	4,511,921	6,387,585	38	168,094

* The Coast Guard does not establish pay procedures for the pilot associations, rather we set a target rate of compensation for general compensation calculation.

** The District Three Association actually employed 13 pilots during this timeframe; their approximate compensation per pilot is higher than this table depicts. Seventeen pilots were authorized in the rate.

These figures demonstrate the significant shortfall in pilot compensation compared to an estimated present value of 2011 compensation (the last figures are not in dispute) of approximately $260,000. We believe $260,000 is a fair estimate of what pilot compensation should be based on uncontested figures from previous AMOU contracts. The gap of almost $90,000 between approximate actual compensation and our estimates of where pilot compensation should stand place the pilot associations in an untenable position. We believe it is imperative to act quickly to raise the revenue needed to sustain pilot association operations and compensate pilots in a fair and reasonable manner. This gap also highlights a significant discrepancy in the actual salaries of U.S. Registered Pilots compared to the Canadian Registered Pilots of the GLPA, estimated to be approximately ($US) 250,000. We must work quickly to rebaseline the billing scheme and raise the revenue necessary to continue to sustain safe, efficient, and reliable pilotage service on the Great Lakes. We believe the shortfalls in revenue are caused by an overprojection of bridge hours and to a larger extent, an inadequate billing scheme. To this end, we will adjust our proposal to raise rates in all areas by 10 percent in a concerted effort to begin closing the established gap between compensation of U.S. and Canadian Registered Pilots, as well as the gap between actual salaries and previous estimates. This percentage increase is high enough above inflation to begin closing the revenue gap without being unduly burdensome to industry. We believe sustained, steady rate increases to close the gap are more responsible than a one-time action. This replaces our initial projections of a 2.5 percent increase in all areas. We will seek to address the underlying methodology challenges in a future rulemaking.

Therefore, we rely on the discretionary authority we have under Step 7 to further adjust rates and begin closing the gap between revenues projected by the Coast Guard and those collected by the pilot associations. Table 32 compares the impact, area by area, that an average decrease of 12 percent would have, relative to the impact each area would experience if United States rates increase.

TABLE 32—IMPACT OF EXERCISING STEP 7 DISCRETION

Area	Percent change in rate without exercising Step 7 discretion	Percent change in rate with exercise of Step 7 discretion
Area 1 (Designated waters)	−15.77	10
Area 2 (Undesignated waters)	−15.57	10
Area 4 (Undesignated waters)	−0.54	10
Area 5 (Designated waters)	−16.37	10
Area 6 (Undesignated waters)	−5.95	10
Area 7 (Designated waters)	−13.92	10
Area 8 (Undesignated waters)	−5.82	10

The following tables reflect our rate adjustments of 10 percent across all areas.

Tables 33 through 35 show these calculations.

TABLE 33—ADJUSTMENT OF PILOTAGE RATES, AREAS IN DISTRICT ONE

	2014 Rate		Rate multiplier		Adjusted rate for 2015
Area 1					
St. Lawrence River					
Basic Pilotage	$19.22/km, $34.02/mi	×	1.1	=	$21.14/km, $37.42/mi
Each lock Transited	$426	×	1.1	=	$469
Harbor movage	1,395	×	1.1	=	1,535
Minimum basic rate, St. Lawrence River	931	×	1.1	=	1,024
Maximum rate, through trip	4,084	×	1.1	=	4,492
Area 2					
Lake Ontario					
6-hour period	872	×	1.1	=	959
Docking or Undocking	832	×	1.1	=	915

Note: Numbers may not total due to rounding.

In addition to the rate charges in Table 33, as we explain in the Summary section of Part VI of this preamble, we are authorizing District One to implement a temporary supplemental 10 percent charge on each source form (the ''bill'' for pilotage service) for the duration of the 2015 shipping season, which begins in March 2015. District One will be required to provide us with monthly status reports once this surcharge becomes effective for the duration of the 2015 shipping season. We will exclude these expenses from future rates and any surcharge surplus/deficit from the 2014 season would impact the final authorized surcharge for the 2015 season.

TABLE 34—ADJUSTMENT OF PILOTAGE RATES, AREAS IN DISTRICT TWO

	2014 Rate		Rate multiplier		Adjusted rate for 2015
Area 4					
Lake Erie					
6-hour period	$849	×	1.1	=	$934
Docking or undocking	653	×	1.1	=	718
Any point on Niagara River below Black Rock Lock	1,667	×	1.1	=	1,834
Area 5					
Southeast Shoal to Port Huron, MI between any point on or in					
Toledo or any point on Lake Erie W. of Southeast Shoal	1,417	×	1.1	=	1,559
Toledo or any point on Lake Erie W. of Southeast Shoal & Southeast Shoal	2,397	×	1.1	=	2,637
Toledo or any point on Lake Erie W. of Southeast Shoal & Detroit River	3,113	×	1.1	=	3,424
Toledo or any point on Lake Erie W. of Southeast Shoal & Detroit Pilot Boat	2,397	×	1.1	=	2,637
Port Huron Change Point & Southeast Shoal (when pilots are not changed at the Detroit Pilot Boat)	4,176	×	1.1	=	4,594
Port Huron Change Point & Toledo or any point on Lake Erie W. of Southeast Shoal (when pilots are not changed at the Detroit Pilot Boat)	4,837	×	1.1	=	5,321
Port Huron Change Point & Detroit River	3,137	×	1.1	=	3,451
Port Huron Change Point & Detroit Pilot Boat	2,441	×	1.1	=	2,685
Port Huron Change Point & St. Clair River	1,735	×	1.1	=	1,909
St. Clair River	1,417	×	1.1	=	1,559
St. Clair River & Southeast Shoal (when pilots are not changed at the Detroit Pilot Boat)	4,176	×	1.1	=	4,594
St. Clair River & Detroit River/Detroit Pilot Boat	3,137	×	1.1	=	3,451
Detroit, Windsor, or Detroit River	1,417	×	1.1	=	1,559
Detroit, Windsor, or Detroit River & Southeast Shoal	2,397	×	1.1	=	2,637

TABLE 34—ADJUSTMENT OF PILOTAGE RATES, AREAS IN DISTRICT TWO—Continued

	2014 Rate		Rate multiplier		Adjusted rate for 2015
Detroit, Windsor, or Detroit River & Toledo or any point on Lake Erie W. of Southeast Shoal	3,113	×	1.1	=	3,424
Detroit, Windsor, or Detroit River & St. Clair River	3,137	×	1.1	=	3,451
Detroit Pilot Boat & Southeast Shoal	1,735	×	1.1	=	1,909
Detroit Pilot Boat & Toledo or any point on Lake Erie W. of Southeast Shoal	2,397	×	1.1	=	2,637
Detroit Pilot Boat & St. Clair River	3,137	×	1.1	=	3,451

Note: Numbers may not total due to rounding.

In addition to the rate charges in Table 34, and for the reasons we discussed in the Summary section of Part VI of this preamble, we are authorizing District Two to implement a temporary supplemental 10 percent charge on each source form for the duration of the 2015 shipping season, which begins in March 2015. District Two will be required to provide us with monthly status reports once this surcharge becomes effective for the duration of the 2015 shipping season. We will exclude these expenses from future rates.

TABLE 35—ADJUSTMENT OF PILOTAGE RATES, AREAS IN DISTRICT THREE

	2014 Rate		Rate multiplier		Adjusted rate for 2015
Area 6					
Lakes Huron and Michigan					
6-hour Period	$708	×	1.1	=	$779
Docking or undocking	672	×	1.1	=	739
Area 7					
St. Mary's River between any point on or in					
Gros Cap & De Tour	2,648	×	1.1	=	2,913
Algoma Steel Corp. Wharf, Sault Ste. Marie, Ont. & De Tour	2,648	×	1.1	=	2,913
Algoma Steel Corp. Wharf, Sault Ste. Marie, Ont. & Gros Cap	997	×	1.1	=	1,097
Any point in Sault Ste. Marie, Ont., except the Algoma Steel Corp. Wharf & De Tour	2,219	×	1.1	=	2,441
Any point in Sault Ste. Marie, Ont., except the Algoma Steel Corp. Wharf & Gros Cap	997	×	1.1	=	1,097
Sault Ste. Marie, MI & De Tour	2,219	×	1.1	=	2,441
Sault Ste. Marie, MI & Gros Cap	997	×	1.1	=	1,097
Harbor movage	997	×	1.1	=	1,097
Area 8					
Lake Superior					
6-hour period	601	×	1.1	=	661
Docking or undocking	571	×	1.1	=	628

Note: Numbers may not total due to rounding.

In addition to the rate charges in Table 35, and for the reasons we discussed in the Summary section of Part VI of this preamble, we are authorizing District Three to implement a temporary supplemental 10 percent charge on each source form for the duration of the 2015 shipping season, which begins in March 2015. District Three will be required to provide us with monthly status reports once this surcharge becomes effective for the duration of the 2015 shipping season. We will exclude these expenses from future rates.

VII. Regulatory Analyses

We developed this rule after considering numerous statutes and E.O.s related to rulemaking. Below we summarize our analyses based on these statutes or E.O.s.

A. Regulatory Planning and Review

Executive Orders 12866, Regulatory Planning and Review, and 13563, Improving Regulation and Regulatory Review, direct agencies to assess the costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). Executive Order 13563 emphasizes the importance of quantifying both costs and benefits, of reducing costs, of harmonizing rules, and of promoting flexibility.

This rule is not a significant regulatory action under section 3(f) of E.O. 12866 as supplemented by E.O. 13563, and does not require an assessment of potential costs and benefits under section 6(a)(3) of E.O. 12866. The Office of Management and Budget (OMB) has not reviewed it under E.O. 12866. Nonetheless, we developed an analysis of the costs and benefits of the rule to ascertain its probable impacts on industry.

The Coast Guard is required to review and adjust pilotage rates on the Great Lakes annually. See Parts III and IV of this preamble for detailed discussions of the Coast Guard's legal basis and purpose for this rulemaking and for background information on Great Lakes pilotage ratemaking. Based on our annual review for this rulemaking, we are adjusting the pilotage rates for the 2015 shipping season to generate sufficient revenue to cover allowable expenses, and to target pilot compensation and returns on pilot associations' investments. The rate adjustments in this rule will, if codified, lead to an increase in the cost per unit of service to shippers in all three districts, and result in an estimated annual cost increase to shippers of approximately $1,276,980 across all three districts over 2014 rates—an increase of 10 percent.

In addition to the increase in payments that will be incurred by shippers in all three districts from the previous year as a result of the discretionary rate adjustments, we are authorizing temporary, supplemental surcharges to traffic across all three districts in order for the pilotage associations to recover training expenses and technology improvements that were incurred throughout the 2013 and 2014 shipping seasons. These temporary surcharges will be authorized for the duration of the 2015 shipping season, which begins in March. The additional revenue due to the temporary surcharges was calculated by multiplying the surcharge percentage by the projected revenue needed in 2015 for each district (Table 37). We estimate that these temporary surcharges will generate a combined $1,404,678 in revenue for the pilotage associations across all three districts. In District One, the 10 percent surcharge is expected to generate an additional $440,255 in revenue. In District Two, the 10 percent surcharge is expected to generate $424,443 in additional revenue. In District Three, the 10 percent surcharge is expected to generate an additional $539,979 in revenue. At the end of the 2015 shipping season, we will account for the monies the surcharges generate and make adjustments (debits/credits) to the operating expenses for the following year.

Therefore, after accounting for the implementation of the temporary surcharges on traffic across all three districts, the payments made by shippers during the 2015 shipping season are estimated to be approximately $2,681,657 more than the payments that were made in 2014.[4]

A regulatory assessment follows.

The final rule applies the 46 CFR part 404, Appendix A, full ratemaking methodology, including the exercise of our discretion to increase Great Lakes pilotage rates, on average, approximately 10 percent overall from the current rates set in the 2014 final rule. The Appendix A methodology is discussed and applied in detail in Part VI of this preamble. Among other factors described in Part VI, it reflects audited 2012 financial data from the pilotage associations (the most recent year available for auditing), projected association expenses, and regional inflation or deflation. The last full Appendix A ratemaking was concluded in 2014 and used financial data from the 2011 base accounting year. The last annual rate review, conducted under 46 CFR part 404, Appendix C, was completed early in 2011.

The shippers affected by these rate adjustments are those owners and operators of domestic vessels operating on register (employed in foreign trade) and owners and operators of foreign vessels on a route within the Great Lakes system. These owners and operators must have pilots or pilotage service as required by 46 U.S. C. 9302. There is no minimum tonnage limit or exemption for these vessels. The statute applies only to commercial vessels and not to recreational vessels.

Owners and operators of other vessels that are not affected by this final rule, such as recreational boats and vessels operating only within the Great Lakes system, may elect to purchase pilotage services. However, this election is voluntary and does not affect our calculation of the rate and is not a part of our estimated national cost to shippers.

We used 2011–2013 vessel arrival data from the Coast Guard's Marine Information for Safety and Law Enforcement (MISLE) system to estimate the average annual number of vessels affected by the rate adjustment. Using that period, we found that approximately 114 different vessels journeyed into the Great Lakes system annually. These vessels entered the Great Lakes by transiting at least one of the three pilotage districts before leaving the Great Lakes system. These vessels often made more than one distinct stop, docking, loading, and unloading at facilities in Great Lakes ports. Of the total trips for the 114 vessels, there were approximately 353 annual U.S. port arrivals before the vessels left the Great Lakes system, based on 2011–2013 vessel data from MISLE.

The impact of the rate adjustment to shippers is estimated from the District pilotage revenues. These revenues represent the costs that shippers must pay for pilotage services. The Coast Guard sets rates so that revenues equal the estimated cost of pilotage for these services.

We estimate the additional impact (cost increases or cost decreases) of the rate adjustment in this rule to be the difference between the total projected revenue needed to cover costs in 2014, based on the 2014 rate adjustment, and the total projected revenue needed to cover costs in 2015, as set forth in this rule, plus any temporary surcharges authorized by the Coast Guard. Table 36 details projected revenue needed to cover costs in 2015 after making the discretionary adjustment to pilotage rates as discussed in Step 7 of Part V of this preamble. Table 37 summarizes the derivation for calculating the revenue expected to be generated as a result of the temporary surcharges applied to traffic in all three districts as discussed in Step 7 of Part V of this preamble. Table 38 details the additional cost increases to shippers by area and district as a result of the rate adjustments and temporary surcharges on traffic in Districts One,Two, and Three.

TABLE 36—RATE ADJUSTMENT BY AREA AND DISTRICT

[$U.S.; Non-discounted]

	2014 Pilotage rates[5]	Rate change[6]	2015 Pilotage rates[7]	Projected 2015 bridge hours[8]	Projected revenue needed in 2015[9]
Area 1	$472.50	1.10	$519.74	5,116	$2,659,014
Area 2	291.96	1.10	321.15	5,429	1,743,536

[4] Total payments across all three districts are equal to the increase in payments incurred by shippers as a result of the rate changes plus the temporary surcharges applied to traffic in Districts One, Two, and Three.

[5] 2014 Pilotage Rates are described in Table 16 of this rule.

[6] The estimated rate changes are described in Table 32 of this rule.

[7] 2015 Pilotage Rates—2014 Pilotage Rates × Rate Change.

[8] Projected 2015 Bridge Hours are described in Table 14 of this rule.

[9] Projected Revenue Needed in 2015—2015 Pilotage Rates × Projected 2015 Bridge Hours.

TABLE 36—RATE ADJUSTMENT BY AREA AND DISTRICT—Continued

[$U.S.; Non-discounted]

	2014 Pilotage rates[5]	Rate change[6]	2015 Pilotage rates[7]	Projected 2015 bridge hours[8]	Projected revenue needed in 2015[9]
Total, District One					4,402,549
Area 4	210.40	1.10	231.44	5,814	1,345,588
Area 5	521.64	1.10	573.80	5,052	2,898,845
Total, District Two					4,244,433
Area 6	204.95	1.10	225.45	9,611	2,166,780
Area 7	495.01	1.10	544.52	3,023	1,646,070
Area 8	191.34	1.10	210.47	7,540	1,586,945
Total, District Three					5,399,795

* Some values may not total due to rounding.

TABLE 37—DERIVATION OF TEMPORARY SURCHARGE

	Area 1	Area 2	Area 4	Area 5	Area 6	Area 7	Area 8
Projected Revenue Needed in 2015	$2,659,014	$1,743,536	$1,345,588	$2,898,845	$2,166,780	$1,646,070	$1,586,945
Surcharge Rate	10%	10%	10%	10%	10%	10%	10%
Surcharge Raised	$265,901	$174,354	$134,559	$289,885	$216,678	$167,607	$158,694
Total Surcharge	$440,255		$424,443		$539,979		

TABLE 38—IMPACT OF THE RULE BY AREA AND DISTRICT

[$U.S.; Non-discounted]

	Projected revenue needed in 2014[10]	Projected revenue needed in 2015[11]	Temporary surcharge	Additional revenue or costs 2015 (2015–2014)	Total costs or savings of this final rule (additional revenue or costs 2015+temporary surcharge)
Area 1	$2,417,285	$2,659,014	$265,901	$241,729	$507,630
Area 2	1,585,032	1,743,536	174,354	158,503	332,857
Total, District One	4,002,318	4,402,549	440,255	400,232	840,487
Area 4	1,223,262	1,345,588	134,559	122,326	256,885
Area 5	2,635,314	2,898,845	289,885	263,531	553,416
Total, District Two	3,858,576	4,244,433	424,443	385,858	810,301
Area 6	1,969,800	2,166,780	216,678	196,980	413,658
Area 7	1,496,427	1,646,070	164,607	149,643	314,250
Area 8	1,442,677	1,586,945	158,694	144,268	302,962
Total, District Three	4,908,904	5,399,795	539,979	490,890	1,030,870
System Total	12,769,797	14,046,777	1,404,678	1,276,980	2,681,657

* Some values may not total due to rounding.

After applying the discretionary rate change in this rule, the resulting difference between the projected revenue in 2014 and the projected revenue in 2015 is the annual change in payments from shippers to pilots after accounting for market conditions (*i.e.,* a decrease in demand for pilotage services) and the change to pilotage rates as a result of this final rule. This figure is equivalent to the total additional payments or reduction in payments from the previous year that shippers will incur for pilotage services from this rule.

The impact of the discretionary rate adjustment on shippers varies by area and district in this final rule. The discretionary rate adjustments will lead to affected shippers operating in District One, District Two, and District Three experiencing an increase in payments of $400,232, $385,858, and $490,890, respectively, from the previous year.

In addition to the rate adjustments, temporary surcharges on traffic in District One, District Two, and District Three will be applied for the duration of the 2015 season in order for the pilotage associations to recover training expenses and technology investments incurred during the 2013 and 2014

[10] Projected revenue needed in 2014 is described in Table 16 of this rule.

[11] Projected revenue needed in 2015 is described in Table 36 of this rule.

shipping seasons. We estimate that these surcharges will generate an additional $440,255, $424,443, and $539,979 in revenue for the pilotage associations in District One, District Two, and District Three, respectively. At the end of the 2015 shipping season, we will account for the monies the surcharges generate and make adjustments (debits/credits) to the operating expenses for the following year.[12]

To calculate an exact cost or savings per vessel is difficult because of the variation in vessel types, routes, port arrivals, commodity carriage, time of season, conditions during navigation, and preferences for the extent of pilotage services on designated and undesignated portions of the Great Lakes system. Some owners and operators will pay more and some would pay less, depending on the distance travelled and the number of port arrivals by their vessels. However, the increase in costs reported earlier in this rule does capture the adjustment in payments that shippers will experience from the previous year. The overall adjustment in payments, after taking into account the increase in pilotage rates and the addition of temporary surcharges will be an increase in payments by shippers of approximately $2,681,657 across all three districts.

This rule will allow the Coast Guard to meet the requirements in 46 U.S. C. 9303 to review the rates for pilotage services on the Great Lakes, thus ensuring proper pilot compensation.

Alternatively, if we imposed the new rates based on the new contract data from AMOU, instead of using the discretionary rate adjustment described in Step 7, there would be an approximately 12 percent decrease in rates across the system. Instead of shippers experiencing an increase in payments of approximately $1,276,980[13] from the previous year, as a result of the rate adjustments, shippers would instead experience a reduction in payments of approximately $1,475,412.[14] Table 39 details projected revenue needed to cover costs in 2015 if the discretionary adjustment to pilotage rates as discussed in Step 7 of Part V of this preamble is not made. Table 40 details the additional costs or savings by area and district as a result of this alternative proposal.

TABLE 39—ALTERNATIVE RATE ADJUSTMENT BY AREA AND DISTRICT

[$U.S.; Non-discounted]

	2014 Pilotage rates	Rate change[15]	2015 Pilotage rates	Projected 2015 bridge hours	Projected revenue needed in 2015
Area 1	$472.50	0.8423	$398.00	5,116	$2,036,149
Area 2	291.96	0.8443	246.51	5,429	1,338,302
Total, District One					3,374,451
Area 4	210.40	0.9946	209.27	5,814	1,216,674
Area 5	521.64	0.8363	436.22	5,052	2,203,805
Total, District Two					3,420,480
Area 6	204.95	0.9405	192.76	9,611	1,852,580
Area 7	495.01	0.8608	426.13	3,023	1,288,197
Area 8	191.34	0.9418	180.20	7,540	1,358,677
Total, District Three					4,499,454
System Total					11,294,385

* Some values may not total due to rounding.

TABLE 40—ALTERNATIVE IMPACT OF THE RULE BY AREA AND DISTRICT

[$U.S.; Non-discounted]

	Projected revenue needed in 2014	Projected revenue needed in 2015	Temporary surcharge	Additional costs or savings of this rule
Area 1	$2,417,285	$2,036,149	$203,615	($177,521)
Area 2	1,585,032	1,338,302	133,830	(112,900)
Total, District One	4,002,318	3,374,451	337,445	(290,421)
Area 4	1,223,262	1,216,674	121,667	115,080
Area 5	2,635,314	2,203,805	220,381	(211,128)
Total, District Two	3,858,576	3,420,480	342,048	(96,048)
Area 6	1,969,800	1,852,580	185,258	68,038
Area 7	1,496,427	1,288,197	128,820	(79,411)
Area 8	1,442,677	1,358,677	135,868	51,868

[12] Our projections indicate in the 2016 rulemaking we will apply a surcharge of $112,226 for District One shippers at the end of the 2015 season in order to account for the difference between the total surcharges collected ($440,255) and the actual expenses incurred by the District One pilot association ($328,029 for training expenses), District Two shippers $98,614 (calculation: $424,443 (total surcharges collected) minus $300,000 to train two applicant pilots and ($25,829.80 for technology improvements)), and District Three shippers $213,029 (calculation: $539,979 (total surcharges collected) minus $326,950 (actual training expenses incurred)).

[13] This figure is the total costs or savings of the final rule minus the surcharges.

[14] This figure does not include the additional payments incurred by shippers as a result of the temporary surcharges applied to traffic in all three districts. The figure is equal to the total additional costs or savings of this final rule minus the temporary surcharges (see Table 40).

[15] The estimated rate changes are described in Table 32 of this final rule.

TABLE 40—ALTERNATIVE IMPACT OF THE RULE BY AREA AND DISTRICT—Continued

[$U.S.; Non-discounted]

	Projected revenue needed in 2014	Projected revenue needed in 2015	Temporary surcharge	Additional costs or savings of this rule
Total, District Three	4,908,904	4,499,454	449,945	40,495
System Total	12,769,797	11,294,385	1,129,439	(345,974)

* Some values may not total due to rounding.

We reject this alternative, however, because independent audits of pilot association revenues details a nearly $2 million gap between Coast Guard revenue projections and the amount of revenues actually collected. A rate decrease would only further widen this disparity, and would also jeopardize the ability of pilotage associations to provide safe, efficient, and reliable pilotage service. A rate increase of 10 percent in all areas will lessen the gap between revenues projected by the Coast Guard and those collected by pilot associations, and the gap between the actual salaries of U.S. Registered Pilots and Canadian Registered Pilots of the GLPA. See our discussion of Step 7 in Part VI of this preamble for further explanation.

B. Small Entities

Under the Regulatory Flexibility Act, 5 U.S.C. 601–612, we have considered whether this rule would have a significant economic impact on a substantial number of small entities. The term ‘‘small entities’’ comprises small businesses, not-for-profit organizations that are independently owned and operated and are not dominant in their fields, and governmental jurisdictions with populations of less than 50,000 people.

We expect that entities affected by the final rule will be classified under the North American Industry Classification System (NAICS) code subsector 483-Water Transportation, which includes the following 6-digit NAICS codes for freight transportation: 483111—Deep Sea Freight Transportation, 483113—Coastal and Great Lakes Freight Transportation, and 483211—Inland Water Freight Transportation. According to the Small Business Administration's definition, a U.S. company with these NAICS codes and employing less than 500 employees is considered a small entity.

For the final rule, we reviewed recent company size and ownership data for the period 2011 through 2013 in the Coast Guard's MISLE database, and we reviewed business revenue and size data provided by publicly available sources such as MANTA and Reference USA. We found that large, foreign-owned shipping conglomerates or their subsidiaries owned or operated all vessels engaged in foreign trade on the Great Lakes. We assume that new industry entrants would be comparable in ownership and size to these shippers.

There are three U.S. entities affected by this rule that receive revenue from pilotage services. These are the three pilot associations that provide and manage pilotage services within the Great Lakes districts. Two of the associations operate as partnerships and one operates as a corporation. These associations are designated with the same NAICS industry classification and small-entity size standards described above, but they have fewer than 500 employees; combined, they have approximately 65 total employees. We expect no adverse impact to these entities from this rule because through this rulemaking, all the pilot associations are provided with additional revenue to offset some of the projected expenses associated with the projected number of bridge hours and pilots, and to keep them on par with their Canadian counterparts.

Therefore, the Coast Guard certifies under 5 U.S.C. 605(b) that this rule would not have a significant economic impact on a substantial number of small entities.

C. Assistance for Small Entities

Under section 213(a) of the Small Business Regulatory Enforcement Fairness Act of 1996 (Pub. L. 104–121), we offered to assist small entities in understanding this rule so that they can better evaluate its effects on them and participate in the rulemaking. The Coast Guard will not retaliate against small entities that question or complain about this rule or any policy or action of the Coast Guard.

Small businesses may send comments on the actions of Federal employees who enforce, or otherwise determine compliance with, Federal regulations to the Small Business and Agriculture Regulatory Enforcement Ombudsman and the Regional Small Business Regulatory Fairness Boards. The Ombudsman evaluates these actions annually and rates each agency's responsiveness to small business. If you wish to comment on actions by employees of the Coast Guard, call 1–888–REG–FAIR (1–888–734–3247).

D. Collection of Information

This rule calls for no new collection of information under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3520). This rule does not change the burden in the collection currently approved by the OMB under OMB Control Number 1625–0086, Great Lakes Pilotage Methodology.

E. Federalism

A rule has implications for federalism under E.O. 13132, Federalism, if it has a substantial direct effect on the States, on the relationship between the national government and the States, or on the distribution of power and responsibilities among the various levels of government. We have analyzed this rule under that order and have determined that it is consistent with the fundamental federalism principles and preemption requirements described in E.O. 13132. Our analysis is explained below.

Congress directed the Coast Guard to establish ‘‘rates and charges for pilotage services.’’ 46 U.S.C. 9303(f). This regulation is issued pursuant to that statute and is preemptive of state law as specified in 46 U.S.C. 9306. Under 46 U.S.C. 9306, a ‘‘State or political subdivision of a State may not regulate or impose any requirement on pilotage on the Great Lakes.’’ As a result, States or local governments are expressly prohibited from regulating within this category. Therefore, this rule is consistent with the principles of federalism and preemption requirements in E.O. 13132.

F. Unfunded Mandates Reform Act

The Unfunded Mandates Reform Act of 1995 (2 U.S.C. 1531–1538) requires Federal agencies to assess the effects of their discretionary regulatory actions. In particular, the Act addresses actions that may result in the expenditure by a State, local, or tribal government, in the aggregate, or by the private sector of $100,000,000 (adjusted for inflation) or more in any one year. Though this rule would not result in such expenditure, we discuss the effects of this rule elsewhere in this preamble.

G. Taking of Private Property

This rule will not cause a taking of private property or otherwise have taking implications under E.O. 12630, Governmental Actions and Interference with Constitutionally Protected Property Rights.

H. Civil Justice Reform

This rule meets applicable standards in sections 3(a) and 3(b)(2) of E.O. 12988, Civil Justice Reform, to minimize litigation, eliminate ambiguity, and reduce burden.

I. Protection of Children

We have analyzed this rule under E.O. 13045, Protection of Children from Environmental Health Risks and Safety Risks. This rule is not an economically significant rule and would not create an environmental risk to health or risk to safety that might disproportionately affect children.

J. Indian Tribal Governments

This rule does not have tribal implications under E.O. 13175, Consultation and Coordination with Indian Tribal Governments, because it would not have a substantial direct effect on one or more Indian tribes, on the relationship between the Federal Government and Indian tribes, or on the distribution of power and responsibilities between the Federal Government and Indian tribes.

K. Energy Effects

We have analyzed this rule under E.O. 13211, Actions Concerning Regulations That Significantly Affect Energy Supply, Distribution, or Use. We have determined that it is not a ''significant energy action'' under that order because it is not a ''significant regulatory action'' under E.O. 12866 and is not likely to have a significant adverse effect on the supply, distribution, or use of energy. The Administrator of the Office of Information and Regulatory Affairs has not designated it as a significant energy action. Therefore, it does not require a Statement of Energy Effects under E.O. 13211.

L. Technical Standards

The National Technology Transfer and Advancement Act (15 U.S.C. 272, note) directs agencies to use voluntary consensus standards in their regulatory activities unless the agency provides Congress, through the OMB, with an explanation of why using these standards would be inconsistent with applicable law or otherwise impractical. Voluntary consensus standards are technical standards (*e.g.,* specifications of materials, performance, design, or operation; test methods; sampling procedures; and related management systems practices) that are developed or adopted by voluntary consensus standards bodies. This rule does not use technical standards. Therefore, we did not consider the use of voluntary consensus standards.

M. Environment

We have analyzed this rule under Department of Homeland Security Management Directive 023–01 and Commandant Instruction M16475.lD, which guide the Coast Guard in complying with the National Environmental Policy Act of 1969 (42 U.S.C. 4321–4370f), and have concluded that this action is one of a category of actions that do not individually or cumulatively have a significant effect on the human environment. A final environmental analysis checklist supporting this determination is available in the docket where indicated under the **ADDRESSES** section of this preamble. This final rule involves regulations that are editorial or procedural and fall under section 2.B.2, figure 2–1, paragraph (34)(a) of the Instruction.

List of Subjects in 46 CFR Part 401

Administrative practice and procedure, Great Lakes, Navigation (water), Penalties, Reporting and recordkeeping requirements, Seamen.

For the reasons discussed in the preamble, the Coast Guard amends 46 CFR part 401 as follows:

Title 46—Shipping

PART 401—GREAT LAKES PILOTAGE REGULATIONS

■ 1. The authority citation for part 401 continues to read as follows:

Authority: 46 U.S.C. 2104(a), 6101, 7701, 8105, 9303, 9304; Department of Homeland Security Delegation No. 0170.1; 46 CFR 401.105 also issued under the authority of 44 U.S.C. 3507.

■ 2. In § 401.405, revise paragraphs (a) and (b), including the footnote to Table (a), to read as follows:

§ 401.405 Basic rates and charges on the St. Lawrence River and Lake Ontario.

* * * * *

(a) Area 1 (Designated Waters):

Service	St. Lawrence River
Basic Pilotage	$21.13 per kilometer or $37.42 per mile.[1]
Each Lock Transited	$469.[1]
Harbor Movage	$1,535.[1]

[1] The minimum basic rate for assignment of a pilot in the St. Lawrence River is $1,024, and the maximum basic rate for a through trip is $4,492.

(b) Area 2 (Undesignated Waters):

Service	Lake Ontario
6-hour Period	$959
Docking or Undocking	915

■ 3. In § 401.407, revise paragraphs (a) and (b), including the footnote to Table (b), to read as follows:

§ 401.407 Basic rates and charges on Lake Erie and the navigable waters from Southeast Shoal to Port Huron, MI.

* * * * *

(a) Area 4 (Undesignated Waters):

Service	Lake Erie (East of Southeast Shoal)	Buffalo
6-hour Period	$934	$934
Docking or Undocking	718	718
Any point on the Niagara River below the Black Rock Lock	N/A	1,834

(b) Area 5 (Designated Waters):

Any point on or in	Southeast Shoal	Toledo or any point on Lake Erie west of Southeast Shoal	Detroit River	Detroit Pilot Boat	St. Clair River
Toledo or any port on Lake Erie west of Southeast Shoal	$2,637	$1,559	$3,424	$2,637	N/A
Port Huron Change Point	[1] 4,594	[1] 5,321	3,451	2,685	1,909
St. Clair River	[1] 4,594	N/A	3,451	3,451	1,559
Detroit or Windsor or the Detroit River	2,637	3,424	1,559	N/A	3,451
Detroit Pilot Boat	1,909	2,637	N/A	N/A	3,451

[1] When pilots are not changed at the Detroit Pilot Boat.

■ 4. In § 401.410, revise paragraphs (a), (b), and (c) to read as follows:

§ 401.410 Basic rates and charges on Lakes Huron, Michigan, and Superior; and the St. Mary's River.

* * * * *

(a) Area 6 (Undesignated Waters):

Service	Lakes Huron and Michigan
6-hour Period	$779
Docking or Undocking	739

(b) Area 7 (Designated Waters):

Area	De tour	Gros cap	Any harbor
Gros Cap	$2,913	N/A	N/A
Algoma Steel Corporation Wharf at Sault Ste. Marie, Ontario	2,913	$1,097	N/A
Any point in Sault Ste. Marie, Ontario, except the Algoma Steel Corporation Wharf	2,441	1,097	N/A
Sault Ste. Marie, MI	2,441	1,097	N/A
Harbor Movage	N/A	N/A	$1,097

(c) Area 8 (Undesignated Waters):

Service	Lake Superior
6-hour Period	$661
Docking or Undocking	628

§ 401.420 [Amended]

■ 5. Amend § 401.420 as follows:

■ a. In paragraph (a), remove the text ''$129'' and add, in its place, the text ''$142''; and remove the text ''$2,021'' and add, in its place, the text ''$2,223'';

■ b. In paragraph (b), remove the text ''$129'' and add, in its place, the text ''$142''; and remove the text ''$2,021'' and add, in its place, the text ''$2,223''; and

■ c. In paragraph (c)(1), remove the text ''$763'' and add, in its place, the text ''$839''; in paragraph (c)(3), remove the text ''$129'' and add, in its place, the text ''$142''; and remove the text ''$2,021'' and add, in its place, the text ''$2,223''.

§ 401.428 [Amended]

■ 6. In § 401.428, remove the text ''$763'' and add, in its place, the text ''$839''.

Dated: February 23, 2015.

Gary C. Rasicot,

Director, Marine Transportation Systems, U.S. Coast Guard.

[FR Doc. 2015–04036 Filed 2–25–15; 8:45 am]

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DEPARTMENT OF DEFENSE

Defense Acquisition Regulations System

48 CFR Part 212

RIN 0750–AI50

Defense Federal Acquisition Regulation Supplement: Deletion of Obsolete Text Relating to Acquisition of Commercial Items (DFARS Case 2015–D002)

AGENCY: Defense Acquisition Regulations System, Department of Defense (DoD).

ACTION: Final rule.

SUMMARY: DoD is issuing a final rule amending the Defense Federal Acquisition Regulation Supplement (DFARS) to delete obsolete text relating to acquisition of commercial items.

DATES: Effective February 26, 2015.

FOR FURTHER INFORMATION CONTACT: Janetta Brewer, telephone 571–372–6104.

SUPPLEMENTARY INFORMATION:

I. Background

On March 12, 2012, the DFARS was amended to implement a recommendation made by the Panel on Contracting Integrity and included in its 2009 Report to Congress concerning compliance with the DFARS documentation requirements for commercial item determinations. DFARS subpart 212.1 was revised to require the contracting officer to determine that an acquisition exceeding $1 million and using FAR part 12 procedures either meets the commercial item definition at FAR 2.101 or the criteria at FAR 12.102(g)(1). The DFARS reference to FAR 12.102(g)(1), however, is no longer necessary since the FAR criteria only apply to contracts and task orders entered on or before November 24, 2013. Accordingly, DFARS 212.102(a)(i)(A) is being revised to remove the statement ''or meets the criteria at FAR 12.102(g)(1)''.

On November 1, 2004, DFARS subpart 212.70 was amended to implement section 847 of the National Defense Authorization Act for Fiscal Year 2004, which authorized DoD to carry out a pilot program that permitted the use of streamlined contracting procedures for the production of items or processes begun as prototype projects under other transaction agreements. Since the authority for this program expired on September 30, 2010, the associated text at DFARS subpart 212.70 is being removed.

II. Publication of This Final Rule for Public Comment Is Not Required by Statute

''Publication of proposed regulations'', 41 U.S.C. 1707, is the statute which applies to the publication of the Federal Acquisition Regulation. Paragraph (a)(1) of the statute requires that a procurement policy, regulation,