



## **PIERPASS OFFPEAK PROGRAM COST ADJUSTMENT — OVERVIEW**

### **BACKGROUND**

On July 23, 2005, PierPASS Inc. introduced five additional after-hours and weekend gate shifts at all container shipping terminals in the Ports of Los Angeles and Long Beach, under a program called OffPeak. The objective of the OffPeak program is to reduce traffic congestion and eliminate costly bottlenecks at marine terminal gates by diverting cargo trucking from regular daytime gates (between the hours of 3:00 a.m. and 6:00 p.m., Monday through Friday) to “off peak” night and weekend gates.

The incentive for shippers to utilize the new OffPeak gates is the establishment of a Traffic Mitigation Fee (TMF), a monetary charge for loaded non-intermodal containers that enter or leave a marine terminal during regular daytime hours. The fees collected by the OffPeak program are designated to cover night gate operations costs, including administrative and overhead costs incurred by PierPASS Inc. to implement and manage the program.

### **THE TRAFFIC MITIGATION FEE**

The original TMF was set following a 2004 market analysis and an in-depth consultation with marine terminal management at the Ports of Los Angeles and Long Beach. Given that the additional gate shifts were not in place yet and metrics were unavailable, hard data points were not obtainable. The best estimate for a TMF that would offset the cost of OffPeak operations and PierPASS administration was \$40.00 per TEU (twenty-foot equivalent unit).

As provided at the start up of OffPeak, PierPASS established a program assessment plan – a formal review of OffPeak program costs on a regular basis. TMF rates would be adjusted as necessary.

### **TMF AUDIT**

The planned first audit on the OffPeak program was conducted by the JWD Group, an independent industrial engineering firm. The study determined that the current \$40.00 per TEU rate resulted in OffPeak program revenues falling short of the costs by approximately \$4 million per month. An adjustment to the TMF rate is therefore necessary to sustain the OffPeak operation at a break-even level.

The added cost of the new night and weekend gates is partially offset by a decrease in the cost of day gate operations as cargo moves in the OffPeak shifts. The audit showed that costs of the Monday through Friday day gates declined by 10.2%. Based on the expectation

that marine terminal operators will be able to achieve an additional 4.8% reduction in day gate costs (for a total reduction of 15%), PierPASS developed a revised TMF rate as follows:

**OffPeak Program Operations Summary (per month), First Report**

Night/weekend gate cost increase	\$17,209,099
Day gate cost reduction achieved (10.2% reduction)	\$3,137,387
Net increase in total gate cost	\$14,071,712
Day gate cost reduction (at targeted 15% reduction)	\$4,605,778
<b>Net increase in total gate cost, with 15% day gate cost reduction</b>	<b>\$12,603,321</b>
TEUs subject to Traffic Mitigation Fee	262,910
<b>Actual cost per TEU</b>	<b>\$47.94</b>

With the addition of approximately \$2.00 to the rate structure for the funding of the computer systems, administrative and overhead costs incurred by PierPASS Inc. to run the OffPeak program, the new TMF has been set at \$50.00 per TEU effective April 24.