

Agenda Date: March 28, 2013

Item Number: B3

**Docket:** TS-130184

Company Name: Lake Chelan Recreation, Inc, dba Lake Chelan Boat Company, BC-34

Staff: Mike Young, Regulatory Analyst  
Roger Kouchi, Consumer Protection Staff

### **Recommendation**

Allow the tariff revisions filed on February 8, 2013, by Lake Chelan Recreation, Inc., dba Lake Chelan Boat Company to become effective on April 1, 2013, by operation of law.

### **Discussion**

On February 8, 2013, Lake Chelan Recreation, Inc., dba Lake Chelan Boat Company (LCRI or company) filed with the Washington Utilities and Transportation Commission (commission) revisions to its Tariff No. 63, with a stated effective date of April 1, 2013. The company provides commercial ferry service on Lake Chelan to approximately 55,000 customers annually and the last general rate increase became effective on June 1, 2009.

This filing was prompted by a significant disruption of ferry service and expected loss of passengers caused by the Holden Mine Site clean-up project. The U.S. Forest Service (USFS) has contracted with Rio Tinto to clean up the Holden Mine site, located 12 miles west of Lake Chelan with phase I scheduled for completion in 2015. The clean-up activity will affect ferry passenger service at the USFS' Lucerne Dock, which provides access, by bus service, to Holden Village and to hiking trails in the Glacier Peak Wilderness area. During the clean-up period, the bus operations will be reduced to weekends only, and will be the only method of travel allowed by the USFS in the work zone.

Historically, passengers traveling to and from Holden Village represent about 27 percent of LCRI's fares during the peak season. In 2012, 14,733 passengers traveled to the Lucerne Dock. Holden Village estimates that volunteer staff would generate approximately 4,300 one-way passengers. Rio Tinto estimates its workers would generate approximately 2,400 one-way passengers. The company estimates a net reduction in ridership of approximately 8,000 one-way passengers in 2013, and a loss of approximately \$166,900 (13 percent) in revenue. Staff finds it is reasonable for the company to rely on third party estimates to project the impact to passenger ridership and revenue.

Rio Tinto has pledged \$150,000 to LCRI to offset revenue losses due to clean-up activities in 2013. The company expects that Rio Tinto will pledge a similar amount in 2014, but Rio Tinto has not yet made that commitment.

The company proposes to reduce costs by eliminating Tuesday and Thursday runs (9 roundtrips total) during April, effectively extending the current winter schedule by one month. Reducing runs in May and early June to just one boat instead of the usual two boats for that time period would eliminate 20 roundtrips. Eliminating 29 roundtrips would save approximately \$42,500 (3.3 percent) in operating

costs and affect approximately 1,600 one-way customers. The company estimates that approximately 1,200 (75 percent) of those passengers would ride a different day and approximately 400 (25 percent) would choose not to use the ferry service. Staff finds the company's ridership estimates reasonable, and the proposed elimination of 29 runs in April, May and the first part of June would have a relatively low impact to ridership.

The company proposes to increase revenue by increasing passenger fares (3.5 percent) and freight rates (11 percent) would generate approximately \$44,500 (3.4 percent) additional annual revenue. Staff did not use the company's proposed pro forma adjustment to reflect a three percent pay increase for employees. Employment is not governed by contract, the company has no written employment and compensation policies, and the company advised staff that it would not increase pay if the commission did not include the proposed increase in rates. The company's last pay increase was effective in 2009. Although staff did not accept the proposed pay increase pro forma adjustment, staff's analysis results in a 95.2 operating ratio. Accepting the company's proposed pay increase pro forma adjustment would result in a 96.7 operating ratio. Both operating ratios are lower than the commission's 93 operating ratio guideline and, therefore, staff would, in each case, recommend that the commission allow the proposed rates to become effective by operation of law.

Because of the high operating ratios, staff finds the company's proposed 3.5 percent rate increase to be very conservative.

The following table illustrates the projected changes that result in a net reduction in revenues of approximately \$9,700 (0.8 percent) and a net reduction in expenses of approximately \$51,600 (4 percent) in 2013.

		<b>Passengers</b>	<b>Costs</b>	<b>Revenues</b>
Holden Village:	Guests	(14,773)		\$(278,731.82)
	Volunteer workers	4,299		\$ 69,966.00
	Freight			\$ (16,314.52)
Rio Tinto:	Workers	2,427		\$ 41,860.00
	Payment			\$ 150,000.00
Reduced Runs:	April	(117)	\$ (13,739.69)	\$ (7,763.73)
	May & June	(282)	\$ (28,725.94)	\$ (13,296.00)
Passenger Fare Increase				\$ 36,885.10
Freight Increase				\$ 7,666.80
Miscellaneous taxes and fees			\$ (9,094.20)	
<b>Net Totals</b>		<b>(8,446)</b>	<b>\$ (51,559.83)</b>	<b>\$ (9,728.17)</b>

**Rate Comparison**

The following table is a representative sample of fares from some of the scheduled runs published in the company's tariffs.

<b>One-Way Passenger Fares on Lady of the Lake II</b>				
<b>from Chelan to:</b>	<b>Current Rate</b>	<b>Proposed Rate</b>	<b>Change</b>	<b>Percent Change</b>
Field's Point	\$ 12.75	\$ 13.25	\$ 0.50	4.0%
Lucerne	\$ 21.50	\$ 22.25	\$ 0.75	3.5%
Stehekin	\$ 23.25	\$ 24.00	\$ 0.75	3.3%

<b>One-Way Passenger Fares on Lady Express (May Through October)</b>				
<b>from Chelan to:</b>	<b>Current Rate</b>	<b>Proposed Rate</b>	<b>Change</b>	<b>Percent Change</b>
Lucerne	\$ 33.25	\$ 34.00	\$ 0.75	2.3%
Stehekin	\$ 35.75	\$ 37.00	\$ 1.25	3.5%

<b>Freight Rates</b>				
<b>Freight Type</b>	<b>Current Rate</b>	<b>Proposed Rate</b>	<b>Change</b>	<b>Percent Change</b>
Articles (Minimum Charge)	\$ 6.00	\$ 6.75	\$ 0.75	12.5%
Special Handling (Minimum Charge)	\$ 12.00	\$ 13.50	\$ 1.50	12.5%
Bicycles (Each, One-Way)	\$ 12.00	\$ 13.50	\$ 1.50	12.5%

**Customer Comments**

On Feb. 8, the company provided notice of its filings for tariff and time schedule changes. The notice was emailed to each customer in the company's communication database, posted at its Chelan office and on the Lady Express, and posted on its website at [www.ladyofthelake.com](http://www.ladyofthelake.com). The commission received no customer comments on this filing.

**Conclusion**

Staff has completed its review of the company's supporting financial documents, books and records, and found the company's estimates of changes in ridership and the associated cost and revenues to be reasonable. Staff finds the company's proposed rates to be fair, just, and reasonable.

**Recommendation**

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