FILING FOR PASSENGER RATE INCREASES

Bus rate filings are required to be filed a minimum of 30 days prior to the proposed effective date.

The following material needs to be filed to support your proposed increase:

1. Two copies of the proposed tariff.

2. A letter of transmittal, giving the reasons for the increases and identifying what the specific changes are.

3. A passenger fare count. (See Below)

A passenger fare count is a summary of all sources of revenue derived from your company's bus operations for the year. It can be a sample from a representative time period, or it can be a count of the actual statistics for a recent 12 month period. The count should include the number of children, adult, commuter, etc fares over each intrastate route that you company operates. These counts multiplied by existing fares should come close in total to the revenues of your company for the test year. These same counts times proposed fares forms the basis of the revenue impact of the tariffs you are proposing. The passenger count should include all categories of service and routes your company operates, but especially include statistics on any rates you are proposing to change.

4. Monthly Income Statement (Profit/Loss)

5. Depreciation Schedule

6. A ProForma Income Statement (See Below)

7. Any other information you think that would be important for the staff/Commission to consider in evaluating your tariff application.

Rate filings must be approved in Commission Open Meetings. Generally the Commission meets on the 2nd and 4th Wednesday of each month. On months where there is a 5th Wednesday, its meets then, too. Audits/reviews of justification materials are scheduled so that the investigation can be completed and presented to the Commission no later than the last Wednesday of the month when the filing bears an effective date of the first of a month. The staff generally must have its work done and recommendations completed by the Thursday before the last Wednesday. We request that when a filing is made, all books and records as well as key personnel (including outside accountants) be available for the audit/review. Audit delays and suspensions occur when accounting records are not kept current and accurate with good posting references and backup records readily available.

<u>PREPARATION OF A PRO FORMA INCOME STATEMENT</u>
(See the Attached Example)

The Pro Forma Income Statement is divided into 2 parts.

1. Part 1 is actual operating revenues and expenses

2. Part 2 is pro forma operating revenues and expenses.

It is based on a specific 12 month test period/year usually ending with the most recently completed calendar quarter.

To prepare a pro forma statement, a trial balance should first be made for the 12 months selected for the test period. This revenue and expense summary forms the beginning of the pro forma income statement that documents your company's need for additional revenue. The revenues and expenses should be itemized in the sequence and by account title and number as they appear in your general ledger.

<u>Accounting Adjustments</u>

These preliminary operating results are then adjusted as necessary to more accurately reflect results of operations for the test period. For example, if your company records depreciation for tax purposes using an accelerated method, you would restate depreciation expense to a straight line basis for rate making.

Similarly, if your company leases equipment in an arrangement that more closely resembles a purchase rather than a lease, you would capitalize the asset and substitute depreciation expense rather than the booked lease payments. If your company pays employees twice monthly, and you determine that somehow only 23 payrolls were recorded, you would make an adjustment to include the 24th. If for whatever reason fuel expense, rent, repairs, taxes or whatever have not been recorded properly, you would adjust actual results to more accurately represent your operating summary. If all deposits were not properly recorded, or if advanced ticket sales were not properly allocated between "earned" and "unearned" you would make an adjustment. If you, the owner of the company also sets your own salary in a "non-arms length" situation, review that salary in terms of what you would be willing to pay someone else to do what you do. Any difference would be an accounting adjustment. In short, accounting (restating) adjustments modify historic operating results to more properly reflect a "normal", "representative", 12 month test period. They give recognition to those areas where your accounting methodology may differ from accepted regulatory practice. Provide the details to verify the calculations you made for each entry.

Pro Forma Adjustments

After accounting/restating adjustments have been made, then "pro forma" adjustments are made. Pro forma adjustments give annual effect to known and measurable revenue and expense increases or decreases that have or soon will occur, as if they had been in effect for the entire test period. Calculate the dollar impact of each separate adjustment by revenue or expense category. Revenue/expense changes occurring mid-way throughout the test period would be shown for only those prior months under the old rates, since the subsequent months would already be included in the test year. Revenue/expense changes occurring after the end of the test year (the new rates in your proposed tariff , for example, or an upcoming pay raise for your drivers if it is a firm commitment) would be given the full 12 month impact since none of it would have been included in the base year. If a mid-year rate change occurred, adjust only for revenues recorded at the earlier rates, since the revenues after that change would be recorded at current levels already in the test year.

It is important to note that when making pro forma adjustments, estimates of some future level of activity is not acceptable. If fuel, payroll, or insurance expenses are being increased because of a price change, only actual gallons consumed during the test period, actual labor hours worked, or insurance rate changes of equipment actually used during the test period would be the basis of calculating the change. **DO NOT CHANGE ACTUAL TEST YEAR SERVICE UNITS.** Do not estimate some future number of customers, fuel consumption, or labor hours and then restate those estimated units up to current price levels. Only experienced, test year units of consumption should be pro formed.

Calculate the amount of increase/decrease in each expense/revenue category that has or will soon change. The back-up work papers showing how each adjustment was made should be included too. Even if your company has experienced no expense/revenue changes during the year, you will always have at least one pro forma revenue adjustment giving effect to the proposed rates you have asked for, as determined from the passenger count, and the related revenue sensitive expenses (B&O tax, WUTC fee, etc.)

Separtions

If your company does more than 10-15% of unregulated activity, for example interstate as well as intrastate Washington activity, you should probably consider doing a separation of total company proforma results (revenue and expense) down to regulated, Washington intrastate operations. Doing it at the proforma present level is often easier than doing the separation first, then having to also separtate each restating and proforma adjustment. Again, show the basis of each separation calculation (hours, miles, revenue etc.), and the statistics from which the separation percentages are calculated.

Operating Ratio

Operating Ratio is the yardstick the Commission has traditionally used to measure revenue requirement in the bus industry. Operating Ratio is operating expenses (before interest and Federal Income Tax) divided by operating revenues. In the pro forma income statement, it should be calculated for columns (a), (c), (e), and (g). The target operating ratio for the bus industry is generally around 93 percent. That is, for every 93 cents of expense, the Commission will allow $1.00 of revenue to recover operating expenses, interest, Federal Income Tax and profit. If, after all restating and proforma adjustments have been made, your operating ratio at present rates is 93 or above, the Commission would generally give you additional rates so that the operating ratio would return to a 93. That may be what you asked for or something less. It would not be more. If the operating ratio at present rates is 93 or below, generally the Commission would not recommend any additional revenue need.

XYZ Bus Company
ProForma Income Statement
12 months ended 12/31/97

	Per Books (a)		Restating Adjustments (b)	Per Books Adjusted (c)		ProForma Adjustments (d)	ProForma b/4 Rates (e)		Effect of Rates (f)	ProForma w/ Rates (g)
Revenues										
Passenger	$391,000	1	($5,000)	$386,000	A	$7,750	$393,750	E	$50,000	$443,750
Other	37,000			37,000			37,000			37,000
Total	428,000		-5,000	423,000		7,750	430,750		50,000	480,750
						@ 4.82%			@ 12.70 %	
						from cust stats			from cust stats	
Expenses										
Maintence	42,000	2	-10,000	32,000			32,000			32,000
Driver P/R	133,500	3	7,500	141,000	B	6,500	147,500			147,500
Fuel	60,000			60,000	C	3,000	63,000			63,000
Insurance	20,000			20,000			20,000			20,000
P/R Taxes	22,637			22,637	B	1105	23,742			23,742
Taxes	46,000			46,000	A	78	46,078	E	500	46,578
Licenses	11,000			11,000			11,000			11,000
Depreciation	75,000	4	-13,000	62,000			62,000			62,000
Office	17,000			17,000			17,000			17,000
Utilities	6,500			6,500			6,500			6,500
Rents	20,000			20,000	D	5,000	25,000			25,000
Total Expenses	453,637		-15,500	438,137		15,683	453,820		500	454,320
Net Op Income	-25,637		10,500	-15,137		-7,933	-23,070		49,500	26,431
Op. Ratio - %	105.99%			103.58%			105.36%			94.50%

1. To record unearned pax fares
2. To capitalize extraordinary repair
3. To record 24th P/R
4. To adj. to straigntline depr.

A. To adjust 5/12 of 6/1/97 rate increase & related taxes
B. To adjust 100% of post test year 4.6% driver pay incrase & related taxes
C. To give effect to current fuel prices
D. To adjust to current rent levels
E. To give effect to present rate application & related taxes

XYZ Bus Company
Sample Traffic Count
12 months ended 12/31/97

(3 MONTH SAMPLE)

	Pax	Past Fares	Extension	Pres Fares	Extension	Prop. Fares	Extension
Route A							
Adults	5000	$ 5.00	$ 25,000.00	$ 5.15	$ 25,750.00	$ 6.00	$30,000.00
Kids	2000	2.50	5,000.00	2.65	5,300.00	3.00	6,000.00
Commute	1500	3.00	4,500.00	3.25	4,875.00	3.50	5,250.00
			34,500		35,925		41,250
Route B							
Adults	4000	$ 8.00	32,000.00	8.35	33,400.00	9.50	38,000.00
Kids	750	3.50	2,625.00	3.25	2,437.50	3.50	2,625.00
Commute	500	8.00	4,000.00	8.35	4,175.00	8.00	4,000.00
			38,625.00		40,013		44,625
Route C							
Adults	400	$ 4.00	1,600.00	4.75	1,900.00	5.35	2,140.00
Kids	400	3.00	1,200.00	3.30	1,320.00	3.75	1,500.00
Commute	2500	3.00	7,500.00	3.35	8,375.00	3.65	9,125.00
Other	1000	2.00	2,000.00	2.00	2,000.00	2.25	2,250.00
			12,300.00		13,595		15,015
Grand Total			85,425.00		89,532.50		100,890.00
					4.81%		12.69%