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Via email

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In response to Penny's request for comments we would like to take this opportunity to clarify our position with regards to our proposed fuel surcharge methodology as well as other issues discussed at the June 16, 2006 workshop.

FUEL SURCHARGE: Our intent with the proposal was to suggest a simplified method that was applied equally across the board. The current method uses "base" fuel costs from different periods for each company and companies submit their requests under one of two different formats to one of two different entities. The filling out of the required form requires numerous calculations which serve no purpose. If the idea was to create additional work for the companies this form is ideal, otherwise it is a waste of our recourses.

We attempted to create a method that used a nationally recognized fuel index as the indicator of fuel costs. It makes no difference if you use the cost for unleaded fuel, diesel or jet fuel. They all move up and down with the price of oil and reflect the change in overall fuel prices. As they move up or down, surcharges change incrementally in fixed amounts according to a published table. The incremental amounts and the percentage change reflected upon the proposed table are certainly subject to change, they are just suggestions. At the very least we would expect that the table would reflect our actual costs, including the administrative cost of preparing the fuel charge requests and eliminate the unjustifiable one percent that we are currently required to absorb. There is no reason to subtract fuel taxes out of the equation; this is another redundant step in staff's accounting.

Distilled to its essence, as nationally recognized fuel indexes vary, so do our costs. These costs which we have no control over and no way to predict, must be fully recoverable without a bunch of superfluous paperwork and be calculated using a very simple methodology. They must be treated as a pass through to the customer and do not in any way reflect upon our revenues, if in fact the revenue based method of fare calculation is retained. We earn nothing off them, quite the contrary. Our proposal is just that, a proposal. We are open to alternative indexes and different increments, but the ultimate goal remains the same. Clearly understand that under a proper "banded method" of fare setting, fuel surcharges are not necessary.

BANDED FARES: It is our opinion that a banded method of fare determination is the only reasonable method. That band must be based upon a base fare and not revenues. A company can earn large revenues but no profit (or even losses) or lesser revenues and a reasonable profit, it is management dependent. Good management results in a quality product to the consumer. The current “revenue” based fare setting methodology, by staff’s own admission, penalizes good management and rewards poor management. How can the Commission possibly justify this to the public? It is contrary to all logic and good business sense.

Bands ranging from five to twenty percent have been suggested. Between these two extremes exists a number that serves both the public and the companies. The companies have historically proven that they will not raise their prices any significant amount even when permitted under the current method. The market simply will not permit it. We are not in business to create unhappy customers. It is counter productive. If they are not satisfied with the level of service and cost, they will no longer be our customers. Period. They have many other travel options. It is simplicity itself, Business 101.

Under the current method utilizing a supposed 93/7 ratio we are expected to operate with a “profit margin” of 2% or less after interest and taxes. We cannot have our business grow or keep new, safe, comfortable equipment under this scheme. Additionally, the 93/7 ratio is a figment of staff’s imagination. They have the ability to change or manipulate the ratio at will and can disallow expenses which are normally allowed by the IRS to create an unrealistic picture. In other words they can change the numbers at any time to fit whatever the goal of the moment is. We, the companies, going in to a rate hearing have no idea what is permissible at the time and what is not. Our books can be dissected; accounting costs run up and we are left open to punitive action by the commission. Nothing is in rule and staff is left to pick and choose as they wish. They have created a non-standard, variable accounting method that is not reconcilable under Generally Accepted Accounting Principles and not accepted by the IRS.

It was suggested that bands might be determined by geographical area and proven “effective” competition. Upon further examination we are unable to support this concept. First, the commission does not and has not recognized competition in the Airporter industry. Second, even if the commission were to recognize the concept of competition, proving to staff the level of “effective” competition would be an onerous task involving non-quantitative data subject to manipulation by staff. The result would be worse than we have now in terms of paperwork, company time and resources and unsatisfactory results. It would create yet another artificial situation without regard to the real world.

COMPETITION: We HAVE competition. To state otherwise or to suggest that it is minimal is to ignore reality. We are afforded some protection from other regulated airporters and even then there are many examples of overlapping territories. We are completely unprotected from unregulated entities and in fact are often in or will soon be in competition with the very entity that is to protect us, the State of Washington. Through state subsidies, grants, direct funding and operation of municipal corporations, the state is in the transportation business and competes with us with buses and trains. Rental cars (17.8% traffic flow at Seatac) compete with us. Taxis compete with us. Limos compete with us. Kenmore Air competes with us. Most of all, the private automobile competes with us (54.4% passengers – 63% vehicles at Seatac). By the commission's staff's reckoning we as airporters account for only 1.7% of passengers and 0.3% of traffic at Seatac. These numbers have remained static for the past 10 years. I ask the question again as I didn't get an answer last time; did you use a shuttle on your last trip to the airport? It is time to admit reality, we are **NOT** monopolies and we are **NOT** utilities with ratepayers.

LSN: I cannot get away from this as a gross example of bad regulation. Posting LSN's in every vehicle severely detracts from our image as a "Premium Service" and makes our customer's experience less enjoyable. We are to once again absorb this increased administrative cost with no pass through to the customer. I ask this as a direct question to the staff and the commissioners and I would appreciate a reply; in twenty years of airporter operation have you logged even one formal complaint from a customer regarding their inability to view an LSN? This whole thing flies in the face of the Federal Reduction In Paperwork Act. The review of this section of WAC was to simplify, make it more readable and more efficient. This qualifies on not one of these criteria. A dismal failure. Please review and rescind this section. We suggest a review of the entire WAC 480-30 to eliminate this kind of make work. If this is not possible we propose a \$1.00 per fare administrative pass through fee to cover the cost of all of the increased postings and notices required under the latest iteration of WAC 480-30.

At the workshops no single member of the staff was willing to take responsibility for any revision to the code. Until individual members are held accountable for their work product, quality will suffer. If you feel that a particular section is good for the consumers or the companies, be prepared to defend or justify it. This LSN posting was some individual's idea that was then accepted by the group quite possibly with out further review. No one was willing to step forward and state why this section was necessary.

ADDITIONAL COMMENTS: There are many areas regarding the revision to 480-30 that we do not understand. They make no logical sense from our perspective, but the commission has spoken and has chosen to find reasons why they don't or "can't" make changes without looking at the results of the changes. If additional changes to the code were required or changes in suggested language or even changes to RCW then those avenues, where warranted, should be explored by staff.

Be that as it may, to be clear: we support a banded method of fare setting not based upon revenues. Any fare methodology **MUST** include a CPI annual adjustment. Revenue based fare setting is detrimental to the industry and the customers. Fuel surcharges are only needed if the band width on fare setting is too narrow.

It is unclear to us how creating over 100 sections of code in 480-30 to replace 19 sections is progress. We will be happy to answer any questions that staff might have on any of these issues.

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