



STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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July 17, 2006

RE: Docket No. TC-060177 Rulemaking to consider rules related to rates and ratemaking for passenger transportation companies, Chapter 480-30 WAC

Dear Participants in the Passenger Transportation Companies Rulemaking Project:

Thank you for your participation in our rulemaking relating to fares and the need for and nature of continued regulation of entry, fares and service quality standards. We appreciate the time you have devoted to this effort and your substantive suggestions.

Following our discussion at the last workshop, we have decided to pursue legislation to give the commission the flexibility we need to tailor entry and fare-setting standards to the market conditions within specific geographic areas. We believe that making a finding of "effective competition" within a transportation market is an important precursor to being more flexible in our approach to approving fares. Chris Rose, Director of the Policy Office, will take the lead for us in working with staff and the industry to develop the legislation. He will contact you during the next few weeks with details regarding the proposal.

In the meantime, we have decided to continue to use the 93 percent operating ratio methodology as the basic approach to evaluating proposed fares. Of course a company may propose an alternative approach when filing for changes in its fares. We have decided that we will not codify this methodology in rule.

We carefully considered your comments regarding the fuel surcharges, and will amend our order regarding fuel surcharges to make the following changes.

- We will eliminate the 1 percent revenue threshold. In its place, we will expect companies to manage at least 10 percent of a fuel price increase. This ties the threshold directly to fuel prices rather than the company's overall revenue level and is consistent with the response of many competitive companies for whom fuel is a significant cost. Many such companies look for efficiencies or other offsets because competition constrains their ability to pass through 100 percent of their fuel costs to their customers.



- We will no longer use the company's actual fuel cost for the base period and the actual fuel cost shown by invoices for the current price. Instead, we will use a fuel index to calculate the increase in fuel prices from the base period to the current period.
- We will reduce your paperwork requirements by performing the calculation for you, once each month. The Regulatory Services Section will calculate a maximum allowable surcharge in two ways: as a percentage of the fare and as a dollar amount per passenger. You may choose which surcharge, percentage or dollar amount, to apply. Or, you may choose any amount of surcharge less than the maximum amount. If you find it necessary to "round" the surcharge, you may do so by charging less than the maximum. The maximum allowable surcharge will be effective for one month, at which time we will send you a new calculation or post the information to the commission's website.
- A company's need for additional revenue to address fuel price increases changes over time. Therefore, we will allow a company to recover fuel cost increases through the surcharge mechanism for a maximum of two years beyond the company's base fuel period. This limitation will serve as a check on over-earnings due to revenue growth from other operations.

We also want to give you the opportunity to decrease your rates quickly to respond to the market conditions you face. Therefore, we will propose a rule change to allow companies to reduce their fares with only one day notice to the commission, rather than seven days. While the commission will reserve the right to file a complaint against the filed decrease, from a practical standpoint the reduced time requirement will put the burden on the companies to make wise choices. You will see a "CR 102 – Notice of Proposed Rulemaking" – in the next few weeks. You will have a final opportunity to comment and to testify at a rules hearing before the commission makes a final decision regarding this change.

Thank you again for your participation. We realize that this may not be the outcome some of you were looking for, but we believe strongly that these changes, including proposed legislation, are necessary steps toward regulatory reform of setting fares.

Sincerely,



Mark H. Sidran
Chairman