

Agenda Date: September 14, 2005
Item Number: B1

Docket: TS-051318
Company Name: Aqua Express, LLC (Certificate No. BC-129)

Staff: Dan Kermode, Regulatory Analyst

Recommendation:

Take no action on the petition to allow Aqua Express, LLC permission to temporarily discontinue passenger-only ferry service .

Discussion:

On September 1, 2005, Aqua Express, LLC (Aqua Express or Company), filed a petition with the Washington Utilities and Transportation Commission (Commission) requesting permission to discontinue passenger-only ferry service (Certificate No. BC-129) pursuant to WAC 480-51-130. In its petition the Company requests permission to discontinue ferry service from October 1, 2005, until July 1, 2006, a nine month period.

On August 31, 2005, the Company issued a press release and posted notices on its ferry and at the docks it serves informing the public that it was requesting approval to discontinue service beginning October 1, 2005, with resumption of ferry service being on July 1, 2006.

Aqua Express cites three reasons for its request to discontinue service: low passenger count, increased fuel prices, and the current moratorium on the Commission's ability to allow additional routes.

Passenger Count: The Company's forecasted monthly passenger count which it presented at its June 2004 certification hearing projected 21,000 passengers. The Company is currently carrying approximately 7,000 passengers per month, one third of the expected amount.

Fuel Prices: The Company states that fuel prices have increased from \$1.40 per gallon to the current cost of \$2.70 per gallon, an increase of over 90%. Fuel represents one of the major costs facing a ferry company. Fuel costs can be recovered by increasing fares. However, the Company believes that increased fares would merely reduce ridership even further and not recover the increased costs.

Moratorium of additional passenger-only routes: In April of 2005, the Washington Legislature passed legislation that prohibited the Commission from considering additional ferry routes serving the Seattle area until a study of the most reliable and

cost-effective means of providing passenger-only ferry service is completed. The Company believes it can not adequately plan its future viability until the study is finished.

The Company believes that discontinuance of service for the requested nine-month period will allow fuel prices to stabilize and the Legislative Study will be completed. During the interim, the Company will review the viability of its business.

RCW 81.84.020 requires an applicant for a certificate to provide ferry service to demonstrate with a *pro forma* financial statement that it has the financial resources to operate the proposed service for at least twelve months. The financial data supplied by the Company were based on reasonable financial and economic assumptions. Normally, projected financial information, though not perfect, does result in reasonable estimates of future results. However, in the case of Aqua Express, estimates of passenger ridership and fuel prices were significantly different from what the Company actually experienced.

A review of the Company's financial information indicates the Company has lost \$676,000 in the first seven months of the year. This is in contrast to the *pro forma* loss of \$248,674 the Company projected for the entire first year of operations. The largest variance from the Company's *pro forma* results is the Company first seven-months revenue figures. The *pro forma* results that the Company submitted at its certification hearing reflected \$1,353,000 in expected revenues whereas the Company's actual results on an annualized basis would produce only \$477,106, or just 35% of the expected *pro forma* revenues.

Fuel costs represent another major variance. In its *pro forma* statements, fuel costs were projected to be \$252,000 for the first year of operations. The *pro forma* fuel costs were based on an expected cost of \$1.50 per gallon. In its first seven-months of operations the company incurred fuel costs of \$204,000, or when annualized, \$351,000. In contrast, Staff's review of crew wages showed the annualized 2005 costs were 30% less than the *pro forma* amount, dropping from a *pro forma* amount of \$283,000 to an annualized \$217,000. Other *pro forma* expenses reviewed showed reasonable variances. For example, annualized Repairs and Maintenance varied only 2% from its *pro forma* projection.

Although there is no direct ferry from Kingston to Seattle, passengers currently using Aqua Express will have an alternative of using the Washington State Ferry that departs out of Kingston to Edmonds or the Bremerton ferry, which goes directly to Seattle.

The Company's petition is scheduled to return for Commission consideration at its September 28, 2005, Open Meeting. At this point in its investigation, Staff has not found

any basis to oppose the granting the petition to allow Aqua Express, LLC permission to temporarily discontinue passenger-only ferry service. Staff recommends the Commission take no action on the petition.