

Agenda Date: May 28, 2009
Item Number: B4

Docket: TS-090381
Company Name: Lake Chelan Recreation, Inc., BC-34

Staff: Christopher Mickelson, Regulatory Analyst
Dennis Shutler, Consumer Protection Staff

Recommendation

1. Take no action, allowing the proposed rates to become effective June 1, 2009, by operation of law, and
2. Issue a complaint against rates for Lake Chelan Recreation, Inc.

Discussion

On March 12, 2009, Lake Chelan Recreation, Inc., (Lake Chelan Recreation or company) filed a general rate case as required in Docket TS-081877, Order 2. The company provides ferry service between Chelan and Stehekin, located in the North Cascade National Park, a 51-mile one-way trip. The company also provides scheduled and flag stop(s) ferry service to a number of small communities between Chelan and Stehekin.

The company proposes in its application to reduce officer salaries, include a small pay increase for hourly employees, adjust fuel costs to \$2.56 per gallon, and operate the reduced service schedules previously approved by the commission. The company concludes that the rate case and proposed operating schedules support the current fares.

Staff Audit and Rate Design

Staff found that the company co-mingled non-regulated operations (food, souvenirs and charter services) with regulated operations (passenger ferry and freight) to such a large extent that staff could not establish a fair, just and reasonable method to separate each business activity. Therefore, staff left the operations blended together. The company should maintain its records in a manner that will allow them to provide a separate, more detailed breakdown, by regulated and non-regulated operations in the future.

Staff's examination of the company's financial records and supporting documents, shows a need to reassess the relationship between full fares and commuter fares. Analysis of ridership data and price differentials indicates that tourists paying full fares in the summer months are subsidizing resident travelers, who pay commuter fares. Staff believes the company needs to reevaluate its current discount to commuter fares before the company elects to reduce service stops in the future or increase the price of full fares.

Staff's review of the company's financial and operating data show the company's restated 2008 operations were profitable, showing an operating ratio of 85.9 percent. The following are a brief description of staff's major adjustments to the company's filing:

- Officer salary of \$100,000 was reduced to \$80,000 per the company's request, which equals the same amount in the last rate case. Staff allocated officer salary across freight and passenger services based on revenue percentages. Staff also proposes that the commission require the officer to maintain a daily journal of activities and time to clearly identify actual work performed for the regulated operations of the company.
- Remove the "Lady Cat" boat and related improvements and expenses (tabs, insurance, fuel, repairs, etc.) because they are not used and useful to the regulated operations of the company.
- Remove Medical and Dental Insurance Plans for Chelan Lanes' (an affiliate) employees because these items are not related to the regulated ferry operations. The company does this in order to get cheaper insurance rates for Chelan Lanes' employees. However, staff does not recommend running non-regulated activities through the regulated portion of the business.
- Multiple pro forma adjustments, such as, removing costs associated with reductions in service (January '09 through March '09) based on approved time schedules, reduced crew expense due to reduced service, reduced payroll taxes based on crew reduction, increased Department of Labor and Industries insurance rate, increased Department of Natural Resources lease fee, increased insurance premiums, increased property taxes and increased employee wages for the crew.
- Removed fuel surcharge revenues and expenses because these are non-recurring expenses.
- The company originally proposed to set fuel cost levels to \$2.56 per gallon. However, consistent with the standard practice in other industries, staff made a pro forma adjustment to reflect the most recent twelve month fuel cost of \$3.261 per gallon. Fuel is 24.2 percent of the company's total expenses and this pro forma adjustment adds \$102,894 to the company's expected costs.

Staff's analysis shows the company has an operating ratio of 93.9 percent for passenger and freight services after staff's restating and pro forma adjustments to the company's books. However, that analysis includes fuel expense at \$3.261 per gallon. The company has consistently used the established fuel surcharge methodology to recover increased fuel expense. The current fuel price for calculating fuel surcharges is \$2.540 per gallon, well below the \$3.261 per gallon price imbedded in fares. Using the established fuel surcharge methodology, the current fuel index would result in a fuel credit of \$1.50 per one way fare for the month of June. Without the fuel credit, the company would earn an 88.6 percent operating ratio.

Commission staff has completed its review of the company's supporting financial documents, books and records and concludes that the company's current rates may generate more revenue than the company requires to pay reasonable operating expenses and earn a reasonable return. Therefore, Lake Chelan Recreation's rates may be unjust and unreasonable, in which case, the commission should issue a complaint against rates for Lake Chelan Recreation, Inc.

Customer Comments

On March 3, 2009, the company provided public notice of the current filing with the commission, e-mailed notice to more than 40 interested individuals, posted notice in the main ticketing office and on the company's web site www.golakechelan.com and at other locations. The commission has received no customer comments.

Dennis Shutler, Consumer Protection staff, is available at 1-888-333-9882 with questions or concerns.

Conclusion

Staff recommends that the commission take no action, allowing the proposed rates to become effective June 1, 2009, by operation of law, and issue a complaint against rates for Lake Chelan Recreation, Inc.