

Exh. GH-1T
Docket TS-180677
Witness: Greg Hammond

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In re Application of

BACKCOUNTRY TRAVELS LLC

**For a Certificate of Public Convenience
and Necessity to Operate Vessels in
Furnishing Passenger Ferry Service**

DOCKET TS-180677

TESTIMONY OF

Greg Hammond

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Response Testimony

February 1, 2019

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Q. Please state your name and business address.

A. My name is Greg Hammond. My business address is the Richard Hemstad Building, 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a regulatory analyst. Among other duties, I am responsible for reviewing tariff and application filings, and making recommendations pertaining to those filings to the Commission.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since October 2014.

Q. Would you please state your educational and professional background?

A. I hold a Bachelor's Degree in accounting from Western Washington University and a Master of Accountancy Degree from Gonzaga University. I attended the National Association of Regulatory Utility Commissioners (NARUC) Utility Rate School in 2015. I also attended Camp NARUC held by Michigan State University's Institute of Public Utilities in 2017.

1 **Q. Have you previously testified before the Commission?**

2 A. No.

3

4 **Q. What topics will you be discussing in your testimony?**

5 A. I will discuss Backcountry Travels LLC's financial fitness to receive a certificate of
6 public convenience and necessity (certificate) to provide commercial public ferry
7 service on Lake Chelan.

8

9 **II. APPLICATION – REVIEW OF FITNESS**

10

11 **Q. Have you reviewed the certificate application filed by Backcountry Travels**
12 **LLC (Backcountry Travels)?**

13 A. Yes.

14

15 **Q. Have you reviewed any other documents to form an opinion about Backcountry**
16 **Travels' financial fitness?**

17 A. Yes. I reviewed the data and pro forma statements provided by the company in its
18 application. This included a review of the company's balance sheet and pro forma

1 income statement, which contains its estimated expenses and revenues for a 12-
2 month period of operations.

3

4 **Q. Why did you review the financial fitness of Backcountry Travels?**

5 A. RCW 81.84.020(2) requires the Commission to determine whether the applicant has
6 the resources to provide commercial public ferry service for at least 12 months
7 before granting the applicant a certificate of convenience and public necessity.

8

9 **Q. Did you conclude that Backcountry Travels has the necessary resources?**

10 A. From my analysis of the applicant's financial information, including total assets on
11 hand, revenue forecasts, and projected costs of service, I concluded that applicant has
12 the financial resources to operate the proposed service for at least 12 months.

13

14 **Q. Please describe how you arrived at your conclusion.**

15 A. I first considered the assets of the applicant. The applicant's balance sheet reflects
16 assets of \$483,600, \$68,600 of which is cash, and \$350,000 in real estate. Also
17 included is \$65,000 in other assets, with \$50,000 attributable to a 50 percent
18 ownership stake in Stehekin Outfitters LLC, and \$15,000 attributable to vehicles.
19 Offsetting these assets is a reported \$163,000 in notes payable, which represents the
20 outstanding loan balance on the real estate.

21 Based on my review, it is my opinion that the applicant has both the long-
22 term fixed assets and working capital required to provide the service level proposed
23 for a minimum of 12 months.

1 **Q. RCW 81.84.020(2) requires the Commission to review an applicant’s “ridership**
2 **and revenue forecasts” as well as its “cost of service.” Did you perform such a**
3 **review?**

4 A. Yes. I examined the applicant’s estimate of \$355,084 in annual revenue for its
5 proposed commercial ferry services, and concluded that the estimate was reasonable.

6

7 **Q. Please describe how you reached your opinion that the estimated revenue was**
8 **reasonable.**

9 A. The applicant estimates its ridership will total approximately 40 percent of the boat’s
10 available capacity, on average for the year, with a total of 9,056 one-way passengers
11 for the year. For comparison purposes I used the ridership percentages from the 2017
12 annual report of the current ferry service, Lake Chelan Recreation Inc. (LCRI).
13 LCRI’s ridership as a percentage of total capacity was approximately 38 percent in
14 2017, with a total of 57,029 one-way passengers. I also reviewed the applicant’s
15 projected \$331,320 in annual expenses and concluded the expenses listed by the
16 company are appropriate for the level of service and the type of business.

17

18 **Q. Are you aware that LCRI provided public comments opposing the grant of a**
19 **certificate to Backcountry Travels?**

20 A. Yes. I have read those comments.

21

1 **Q. Did LCRI raise any questions about Backcountry Travels' financial fitness?**

2 A. Yes. LCRI raised some questions regarding the company's ridership estimates,
3 pointing out that the applicant failed to account for its reduced commuter passes and
4 children's fares in its revenue estimate. While this is true, I did account for this when
5 performing the financial review. The commuter passes would grant the customer a
6 10% discount when buying 10 tickets at once. LCRI stated that 3.8% of its annual
7 passengers are Stehekin commuters. Using this figure, Backcountry Travels would
8 experience a 0.38% reduction in total revenue, which is not a material change.
9 Neither company provided statistics for riders under 12 years of age, who would be
10 charged \$20 per one-way trip.

11 LCRI also questioned the experience level of the captain and whether
12 appropriate wages had been included in the applicant's estimate. To my knowledge,
13 the company has not yet identified who it intends to have captain the boat or what
14 level of qualifications this person holds. The company estimated a \$25-per-hour pay
15 rate for the boat captain. After review of state and national wage data, I believe this
16 is a reasonable estimate. Hourly rates for ferry operators working for the State of
17 Washington range from \$22.69 to \$33.87 per hour. Nationally, the hourly mean
18 wage for this size of vessel operating in this industry is \$25.97 per hour, according to
19 the Bureau of Labor and Statistics. Based on these factors, I believe the applicant's
20 hourly wage estimate is reasonable.

21 Additionally, LCRI questioned the applicant's ability to store and pump fuel
22 in Stehekin as proposed. The applicant states in its pre-filed testimony that it would
23 use existing facilities owned by local businesses for maintenance, fueling, pumping,

1 servicing and mooring of the vessel. Staff has no additional information regarding
2 these facilities or the available fuel capacity.

3

4 **Q. In your opinion then, does Backcountry Travels have the financial ability to**
5 **provide the proposed service for at least 12 months?**

6 A. Yes. With the current cash balance of \$68,600, and with the company's estimated
7 earnings before taxes and interest of \$23,764, the company has working capital and
8 liquidity to maintain service for the 12-month period.

9

10 **Q. Experience of the applicant in providing commercial ferry service is also**
11 **important. Did you examine the prior history and experience of the applicant?**

12 A. Yes. The company indicated in its application that it does not have any experience
13 operating a commercial ferry. And again, I am not aware of who the company plans
14 to have captain the boat. While prior experience is not required by law, it could
15 factor into the decision-making process, but is not a part of my review for financial
16 viability.

17

18 **Q. Does Staff recommend any conditions of approval in the event that the**
19 **Commission grants the application?**

20 A. Yes. The tariff included with the application does not meet all of the formatting
21 requirements outlined in WAC 480-51-080, WAC 480-51-090, and WAC 480-149
22 (Tariff Circular No. 6). Commission staff and the company would need to work on

1 ensuring the proposed tariff meets all Commission requirements before a certificate
2 is issued.

3 Also, WAC 480-51-070 and RCW 81.84.025 require the applicant to submit
4 evidence of liability and property damage insurance covering each vessel to be used
5 under the certificate before a certificate can be issued. Prior to the issuance of a
6 certificate, the applicant would need to provide this proof of insurance coverage.

7

8 **III. CONCLUSION**

9

10 **Q. Is Staff ready to make a recommendation to the Commission?**

11 A. Staff believes the company has the financial ability to provide the proposed service
12 for at least 12 months.

13

14 **Q. Does this conclude your testimony?**

15 A. Yes.