Mr. Rose,

Richard and I appreciate you and the staff listening to our industry concerns.

We would like to summarize our company's position. The other airporter operators may not endorse our position, nor have we shared this letter with them.

We believe that our company has been able to prosper under the present UTC regulations, however, the changes in the unregulated competition such as public transit encroachment into intercity service, the new regional and commuter airlines at three of our major outlying locations, more taxis, limos, and more and more cars continues to adversely affect our business.

The changes or relaxation of enforcement and relaxation of restriction to entry in the regulated airporter industry has also caused us difficulties and made it tougher to continue to grow our market share and therefore the quality and quantity of our service.

Despite these problems, we would rather leave the present 93% profit margin as is than have the Commission abandon us to deregulation or throw us under the WSDOT bus.

On the positive side, the 7% profit margin has in effect restricted entry to small competitors within the regulated airporter business. For instance, our competitor on Whidbey Island would have us believe they are having a hard time making ends meet under the present system. The banded system would better enable them to grow market share in our shared territory and that's not in our best interest. I don't know if that is necessarily in the public's best interest or not.

We recognize that one of the requirements/expectations Washington residents will have of the WUTC is that if you are regulating entry into the scheduled service business then you will also be expected to regulate prices and or financial returns.

While the banded approach gives operators more flexibility in managing their businesses, we realize that it doesn't fully address your regulatory requirement. That leads us to suggest the ROI methodology.

We think an ROI method would offer pricing flexibility, provide rewards to good managers who control expenses and/or make good investments, and provide the WUTC with regulatory oversight that could be supported publicly should they be asked.

Here is a framework that you might consider using as you evaluate the ROI idea.

1. Establish an acceptable - before tax ROI band e.g. 12% - 17%
    - Check the ROI of publicly traded transportation companies
    - Check the beta of these companies
    - Draw some statistical conclusions

2. Fare increases are allowed once the ROI falls below the lower end of the band

3. Accept the company's federal tax return

4. Determine what adjustments to the tax return are acceptable
    1. Depreciation - allow straight-line over 5 years, over 7 years
    2. Salaries - use salary studies from Washington employers and allow up to the 75% percentile
    3. Lease/ rent - accepts market lease/rents only; decide on capitalization rules or not

Thank you again,
Larry Wickkiser and Richard Johnson

cc. Penny Hansen

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