



STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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May 17, 2011

STAFF TECHNICAL ASSISTANCE - MODIFIED PROCEDURE FOR FUEL SURCHARGES

TO: REGULATED AUTO TRANSPORTATION COMPANIES

RE: Commission Order 05, Docket A-042090

This notice advises companies of the modification of the procedures for granting temporary fuel surcharges consistent with the commission's decision and order issued on April 20, 2011.

BACKGROUND

On March 18, 2011, the commission issued a Notice to Auto Transportation Companies of Staff Recommendation for Fuel Surcharges, Opportunity to File Written Comments, and Open Meeting (Notice). Companies and interested parties filed written comments in response to the Notices. At the open meeting on April 14, 2011, the commission considered staff's recommendations, companies' comments and interested parties' written and oral comments submitted in this docket and in Docket T-101661.

The commission's Order 05, Docket A-042090, directed staff to implement new procedures that balance the purposes of the temporary fuel surcharge mechanism with the statutory requirement that all rates and fares must be just, fair, reasonable, and sufficient. Specifically, the commission reinstated Order 02, keeping in effect the existing fuel surcharge mechanism and added two additional requirements, set forth in Order 05, ordering paragraph two:

- a) Only companies whose current rates or fares were established within three years prior to the application for a fuel surcharge should apply for such a surcharge, and companies whose rates or fares were established more than three years prior to the application will be subject to an earnings review and a possible formal proceeding to reduce those rates or fares; and
- b) A company applying for a temporary fuel surcharge must demonstrate as part of its application that the surcharge will not generate revenues in excess of the authorized portion of the difference between current fuel prices and the fuel costs embedded in the company's rates or fares that the surcharge is intended to recover, and the Commission Secretary shall reject any application that fails to make the requisite demonstration.



PROCEDURE

Appendix 1 contains a flow chart that outlines the new filing procedures set forth by the commission's order. Staff has included excerpts from A-042090, Order 05 in the flow chart to help orient the reader.

Step 1; Fuel Surcharge Calculation - The first step includes the same procedures and requirements established for the auto transportation industry in Order 02 along with the addition of a fuel surcharge revenue test. Provided a company's filing complies with the requirements, the outcome of the new process remains the same: Grant the company the authority to add a temporary fuel surcharge to customer fares to become effective with less than statutory notice and grant a waiver of customer notice requirements.

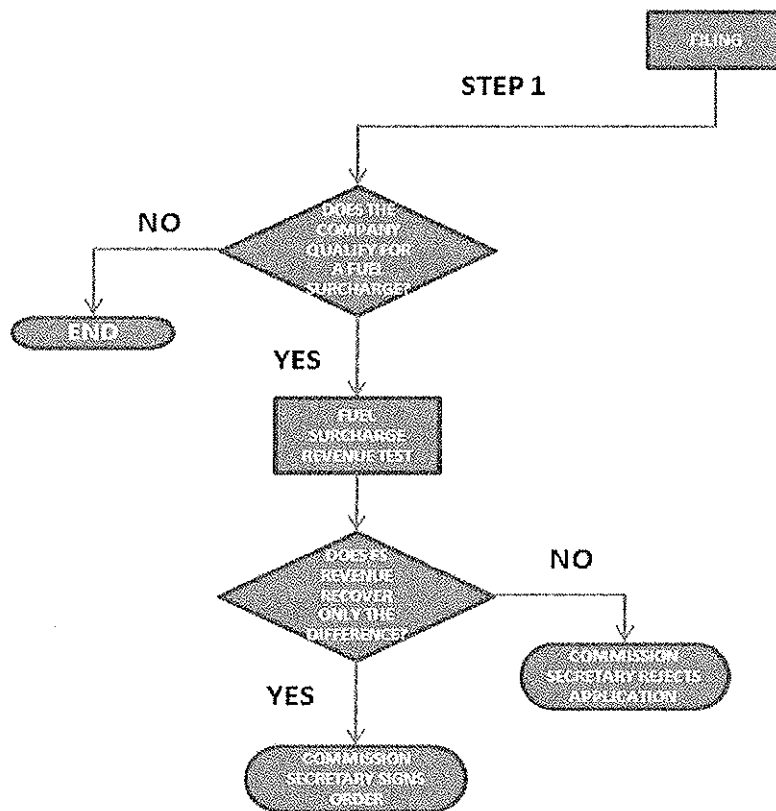


Figure 1 – Fuel Surcharge Procedure, Step 1

Step 1 begins with the company entering specific information into the commission's fuel surcharge worksheet, which is provided to companies via the commission's website. To simplify data entry and calculation steps in the commission's fuel surcharge worksheet, companies need only enter:¹

¹ Table 1 shows the Data Entry Block where companies will enter their required information.

- a. Company name;
- b. The month the fuel surcharge is to go into effect;
- c. Current fuel price (most recent invoice price minus discounts);
- d. Last year's one-way passenger count for the effective month; and
- e. Regulated Revenue (most recent filing with the UTC) - Regulated 12-month revenue; company's most recent 12-month period filed with the commission.²

Fuel Surcharge Worksheet (Auto Transportation)	
INPUTS	a. Company Name Company XYZ
	b. Select the Proposed Effective Month June-2011
	c. Current Fuel Price (Recent Invoice minus Discounts) \$ 4.15
	d. Last year's One-Way Passenger Count for Effective Month 5,000
	e. Regulated Revenue (most recent filing with the UTC) \$ 1,150,000

Table 1 - Fuel Surcharge Worksheet Data Entry Block

Note - Companies filing an application for temporary fuel surcharges who have not had a rate case within the past three years will receive a message in the worksheet's output block as follows:³

Your company's last general rate case is older than 3 years; and therefore, if you choose to file a fuel surcharge staff will conduct an earnings review and may request the commission to issue a formal complaint against rates pursuant to Order 05.

Table 2, Output Block Sample Message to Companies

Order 02 - As mentioned above, the new fuel surcharge process encompasses all of the procedures and requirements set forth in Order 02. They are:

- a. The proposed surcharge will expire no more than one month after it becomes effective.
- b. The requested effective date is at least three business days after the date the request is filed.
- c. The amount of the proposed surcharge is not more than 20 percent of the base fare of the service to which the surcharge would apply.

² A company will enter the amount reflected in its most recent 12-month period filed with the commission. For example, a pro-forma 12-month regulated revenue requirement approved in a General Rate Case or disposal fee increase filing, effective on March 1, 2011, is a more recent 12-month period than calendar year 2010 reported in the company's annual report filed on May 1, 2011. It will be referred to from now on in this procedure as the "company's most recent 12-month regulated revenue."

³ The earnings review referred to in Table 2 above is outlined in Step 2.

- d. The petition is supported by documentation of the actual price paid for fuel by the company within two days immediately prior to the filing of the petition. A company that takes bulk fuel deliveries must use the most recent delivered fuel price. A company that does not take bulk fuel deliveries must use the price paid, to a consistent vendor, within two days prior to filing the petition.
- e. The overall increase in fuel costs, relative to the fuel costs reflected in the company's base fares, is more than 1 percent of the company's total pro forma revenues during the base period. The base period is the more recent of either the test year used in the company's last rate case or calendar year 2003.
- f. The company proposing the surcharge has been operating for at least two years by the end of the base period.
- g. The amount proposed to be collected in the surcharge is not greater than the amount by which the increase in fuel costs exceeds 1 percent of total pro forma revenues.
- h. The monthly fuel surcharge revenue requirement is the increased fuel cost that exceeds 1 percent of base period revenues, divided by twelve. For passenger fares, the calculated fuel surcharge is the monthly fuel surcharge revenue requirement divided by the one-way equivalent passenger count for the same month in the base period as the month in which the fuel surcharge will apply. For freight and other non-passenger related rates, the calculated fuel surcharge is the percentage of the base period fuel expense to base period revenue times the percentage of increase of current fuel cost to the average base period fuel cost.
- i. The proposed surcharge would be applied on a per-passenger basis, rounded to the nearest 25 cents, or a percentage basis, rounded to the nearest one quarter of 1 percent, for freight and other non-passenger related rates.
- j. The filing complies with all requirements generally applicable to tariff revisions requested to take effect with less than statutory notice.

New worksheet - The new fuel surcharge calculation worksheet is divided into six separate calculations which arrive at a rounded one-way equivalent surcharge amount that the company will be allowed to charge its customers in the form of a fuel surcharge. As part of its technical assistance to companies, staff has included as an attachment the new worksheet which will also be available online at the commission's website at the link below:

<http://www.utc.wa.gov/regulatedIndustries/transportation/autoTransportation/Pages/default.aspx>.

The new worksheet accomplishes this by selecting the lesser result of items 1 and 2 below:⁴

1. Calculating a per-passenger fuel surcharge using the methodology set forth in Order 02, and

⁴ Table 3 illustrates how the results will be displayed in the Output Block of the new worksheet.

2. Staff's Fuel Surcharge Revenue Test - Multiply the company's most recent 12-month regulated revenue, by the base fuel expenditure, as a percent of base revenue, to determine if the company's most recent 12-month regulated revenue is sufficient to cover both the base fuel expense plus any additional fuel expense. Any fuel expense amount not covered by the company's most recent 12-month regulated revenue is divided by the company's last year one-way passenger count for the effective month to determine the rounded one-way equivalent surcharge amount.

OUTPUTS	1. Allowable Fuel Surcharge for One-Way (Order 02 Methodology)	\$2.00
	2. Staff Demonstrated Allowable Fuel Surcharge for One-Way (Lesser of Line 42 or Line 58)	\$1.50
Your company's last general rate case is older than 3 years; and therefore, if you choose to file a fuel surcharge staff will conduct an earnings review and may request the commission to issue a formal complaint against rates pursuant to Order 05.		

Table 3 - Fuel Surcharge Worksheet Output Block

NOTE: Companies must file their passenger data for the past year, by month, so that staff can verify the fuel surcharge revenue test calculations.

As is noted in Calculation 6, Line 44 of the new worksheet, the commission, in Order 05, left open the possibility for companies to file additional data or propose an alternate methodology to demonstrate that any proposed fuel surcharge will not generate excess revenues. A company seeking to propose an alternative to the commission staff's fuel surcharge revenue test must fully support its proposal. Staff may need additional time to analyze the company's proposal and may not complete its review in time for the commission to take action by the third business day after the commission receives the filing. Staff may refer such proposals to the open meeting for the commissioners to consider.

Order 05 directs the Commission Secretary to reject any application that fails to make the requisite demonstration in either the fuel surcharge revenue test or an approved alternate.

Step 2; Earnings Review – The commission specified the earnings review in the excerpt from Order 05 below:

“We rescind Orders 03 and 04 but direct Staff to investigate the earnings of all companies that apply for fuel surcharges and have not had a rate case within the three years prior to filing their temporary fuel surcharge application.”

The guidance provided by the commission is that staff is to conduct its earnings review independent of processing of the fuel surcharge application. The earning's review may result in commission staff deciding to seek a formal rate review if it believes that the company is over earning.

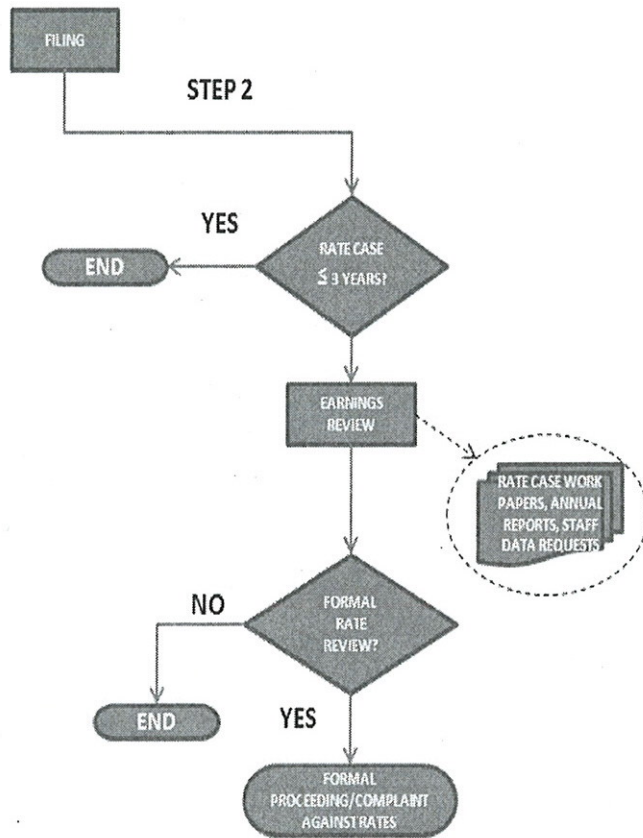


Figure 2 – Fuel Surcharge Procedure, Step 2

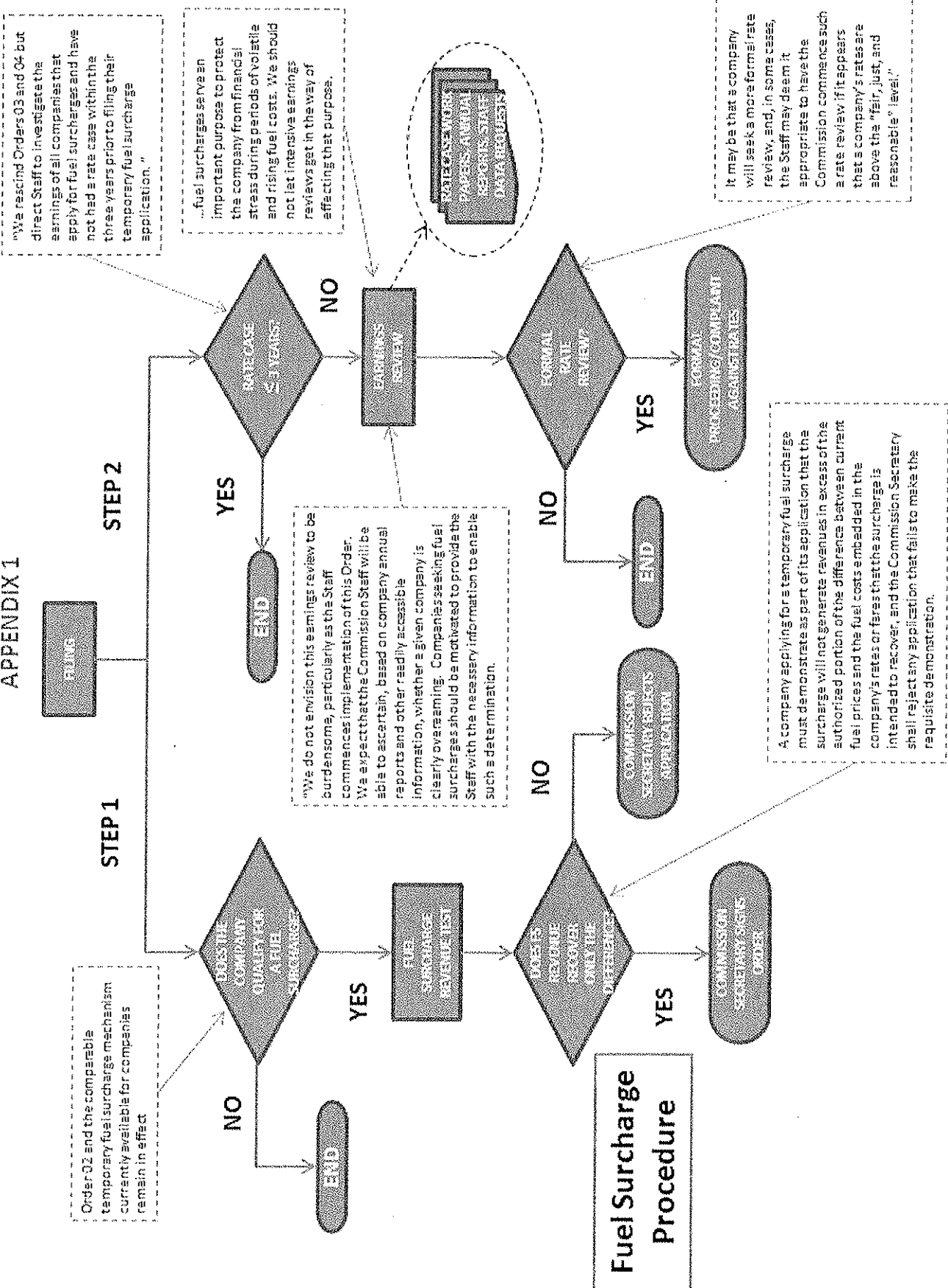
Questions may be addressed to David Gomez at (360) 664-1240 or e-mail at dgomez@utc.wa.gov.

Sincerely,

Eugene K. Eckhardt
Assistant Director – Solid Waste, Transportation and Water
Regulatory Services Division

Enclosures (2)

APPENDIX 1



Fuel Surcharge Worksheet (Auto Transportation)

INPUTS	a. Company Name	Company XYZ
	b. Select the Proposed Effective Month	June 2011
	c. Current Fuel Price (Recent Invoice minus Discounts)	\$ 4.15
	d. Last year's One-Way Passenger Count for Effective Month	5,000
	e. Regulated Revenue (most recent filing with the UTC)	\$ 1,150,000

OUTPUTS	1. Allowable Fuel Surcharge for One-Way (Order 02 Methodology)	\$2.00
	2. Staff Demonstrated Allowable Fuel Surcharge for One-Way (Lesser of Line 42 or Line 58)	\$1.50

Your company's last general rate case is older than 3 years, and therefore, if you choose to file a fuel surcharge staff will conduct an earnings review and may request the commission to issue a formal complaint against rates pursuant to Order 05

Line No.		(a) Last GRC
1. Using the appropriate company name, look up base period information.		
2	Base Revenue	\$ 3,203,469
3	Base Fuel Expense	\$ 300,726
4	Effective Date (GRC)	August 4, 2005
5	Base Period Average Fuel Price (Rate Case)	\$ 2.008
6	Tax Fuel Credit (Diesel / Gasoline)	\$ 0.170
7	Annual Report Revenue (most recent)	\$ 4,123,409
2. Calculate how much of total revenue was spent on fuel.		
10	Base Fuel Expense	\$ 300,726
11	Divided by Base Revenue	÷ \$ 3,203,469
12	Equals Base Fuel vs. Base Revenue Ratio	= 0.0939
13	Multiplied By 100	× 100
14	Equals Base Fuel Expense as % of Base Revenue	= 9.39%
3. Calculate the fuel index increase.		
17	Current Fuel Price	\$ 4.150
18	Minus Tax Fuel Credit	- \$ 0.170
19	Minus Base Fuel Price	- \$ 2.008
20	Equals Fuel Price Difference	= \$ 2.142
21	Divided By Base Fuel Index	÷ \$ 2.008
22	Equals Relative Fuel Price Difference	= 1.0667
23	Multiplied By 100	× 100
24	Equals Fuel Percent Price Increase	= 106.67%
4. Calculate amount of revenue increase needed to recover fuel price increases.		
27	Base Fuel Expense as % of Base Revenue	9.39%
28	Multiplied By Fuel Percent Price Increase	× 106.67%
29	Equals Fuel Index Increase as a % of Revenue	= 10.02%
30	Minus One Percentage Point	- 1.00%
31	Equals Allowable Fuel Increase as a % of Revenue	= 9.02%
5. Calculate average one-way fare increase - The calculation in this step is the same as the old methodology and is provided here as a reference for the company and commission staff and to comply with Order 05 which specifies that the new fuel surcharge process encompass all of the procedures and requirements set forth in Order 02.		
34	Allowable Fuel Increase as a % of Revenue	9.02%
35	Multiplied by Base Revenue	× \$ 3,203,469
36	Equals Allowable Fuel Increase to Base Revenue	= \$ 288,835
37	Divided by 12 months	÷ 12
38	Equals Monthly Additional Fuel Revenue	= \$ 24,070
39	Divided by Corresponding Month's One-Way Equivalent Passenger Count	÷ 11,605
40	Equals One-Way Fare Needed	= \$ 2.074
42	Rounded One-Way Equivalent Surcharge Amount	= \$ 2.00
6. Fuel Surcharge Revenue Test - Demonstration of the allowable fuel increase and possible adjustment to allowable fuel increase. This is staff's calculation of the demonstration referred to in Order 05, Ordering Paragraph 2(b) that the surcharge will not generate revenues in excess of the authorized portion of the difference between current fuel prices and the fuel costs embedded in the company's fares that the surcharge is intended to recover. A company may file additional data and methodologies that they believe makes the same demonstration.		
45	Base Fuel Expense as % of Base Revenue (Line 14)	9.39%
46	Multiplied by Most Recent Regulated Revenue (greater of Line 7 or Input Block Item e. Regulated Revenue)	× \$ 4,123,409
47	Equals Fuel Expense as \$ of Most Recent Regulated Revenue	= \$ 387,188
49	Base Fuel Expense (Line 3)	\$ 300,726
50	Plus Allowable Fuel Increase to Base Revenue (Line 36)	+ \$ 288,835
51	Minus Fuel Expense as \$ of Most Recent Regulated Revenue (Line 47)	- \$ 387,188
52	Equals Difference Between Fuel Expenses	= \$ 202,373
53	Divided by 12 months	÷ 12
54	Equals Monthly Additional Fuel Revenue	= \$ 16,864
55	Divided by Corresponding Month's One-Way Equivalent Passenger Count (greater of Line 39 or or Input Block Item d. Last year's One-Way Passenger Count for Effective Month)	÷ 11,605
56	Equals One-Way Fare Demonstrated	= \$ 1.453
58	Rounded One-Way Equivalent Surcharge Amount (Authorized and Demonstrated)	= \$ 1.50