

Agenda Date: May 24, 2005  
Item Number: B1

**Docket:** TC-050733  
Company: SeaTac Shuttle, LLC, C-1077

Staff: Bob Colbo, Transportation Program Staff  
Gene Eckhardt, Assistant Director of Transportation and Water

**Recommendation:**

Suspend the proposed fuel surcharge of SeaTac Shuttle, LLC, C-1077, in Docket TC-050733.

Discussion:

On May 17, 2005, SeaTac Shuttle, LLC filed a proposed fuel surcharge of \$0.25 for one-way fares and \$0.50 for round trip fares for the month of June, 2005, in Docket TC-050733.

The company's proposed surcharge is based on a different method than was used in all of the company's prior fuel surcharge filings. The new method used by the Company compares the total expenses for fuel in April 2005 to the average monthly pro forma fuel used for the Company's last rate case. The additional fuel expense, minus one percent of the average test period monthly revenue, is divided by the number of passengers from June 2004 to determine a per-passenger fuel surcharge amount. Staff believes that this method could result in an excessive fuel surcharge level in some circumstances. Although the Company's proposed method supports a fuel surcharge of \$2.00 per one-way passenger, the Company requests only \$.25 per one-way passenger. In fact, it appears that SeaTac Shuttle's proposed method results in a \$.25 per one-way passenger surcharge even if fuel fell to \$1.54 gross price per gallon.

Fuel expenses can increase for reasons other than the price of fuel; in particular, fuel expense will increase as the number of runs made by the company increases. During April 2004, SeaTac operated four round-trip schedules per day (Time Schedule No. 1) and during April 2005, SeaTac operated six round-trip schedules per day (Time Schedule No.4). It appears fuel gallons increased from 724 in April 2004 to about 1387<sup>1</sup> in April 2005. Passenger counts increased from 885 in June 2004 to 1,360 in April 2005. These increased fuel expenses may be offset by increased passenger fare revenue, so including those expenses in the fuel surcharge calculation could result in an excessive rate.

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<sup>1</sup> Calculated by dividing April fuel expense (\$3,674.08) by the end of March gross fuel price (\$2.649). The reported end of April gross fuel price dropped to \$2.629. The actual average price for May lies somewhere between the April and May prices.

**Data Summary**

(Shaded Cells Show Data Used In Company's Proposal)

	<u>2004</u>	<u>2005</u>
Round-Trips Per Day (April)	4	6
Gallons of Fuel (April)	724	1,387 <sup>1</sup>
Equivalent One-Way Passengers	885	1,360
	(June)	(April)

Staff believes that it is reasonable for SeaTac Shuttle, as well as other companies, to use fuel surcharges to recover some additional costs that are not recovered in its existing rates. However, the particular method used by SeaTac Shuttle raises issues that should be given more consideration by the Commission.

Staff also evaluated SeaTac Shuttle's need for a fuel surcharge using the same method that Staff used to calculate the Company's current fuel surcharge. The Company's surcharge in May 2005 is \$.25 per one-way passenger, based on a net fuel price of \$2.459 per gallon. The Company's net fuel price for its June 2005 filing is \$2.389 per gallon. Staff found that no surcharge was justified under this method. The method Staff used to calculate SeaTac's current fuel surcharge uses base statistics from the company's recent (test year 2004) rate case. It adjusts the test period net fuel expense embedded in present rates by the change in the average test period net price to the most recent net price. This method excludes the effect of increased fuel expenses that are due to growth in the Company's operations. The increase in fuel expense is reduced by one percent of the average monthly test period revenue. Because the passenger count for SeaTac has increased so dramatically, Staff uses the most recent six-month average passenger count (instead of the test period average passenger count) to calculate the increased fare needed to offset the remaining increase. This calculated amount is rounded to the nearest \$0.25. Using this method, Staff calculated the Company's unrounded one-way fare amount for June 2005 to be \$0.1012, which rounds to zero. Hence SeaTac Shuttle would not be entitled to a fuel surcharge for June 2005.

It is therefore recommended that the Commission suspend the proposed fuel surcharge of SeaTac Shuttle, LLC, C-1077, in Docket TC-050733.