Agenda Date: February 20, 2020

Item Number: TBD

Docket: TV-190664

Company Name: Household Goods Movers Tariff 15-C

Staff: Greg Hammond, Regulatory Analyst, Water and Transportation
Danny Kermode, Assistant Director, Water and Transportation
Andrew Roberts, Regulatory Analyst, Consumer Protection

Recommendation

Issue an order approving the tariff revisions to Household Goods Movers Tariff 15-C as proposed by Staff, effective February 21, 2020.

Discussion

On July 12, 2018, the commission issued Order 01 in Docket TV-180245, which approved revisions to Tariff 15-C allowing Household Goods Movers (HHG) to charge for credit card processing fees, up to 2.5%. In addition to the tariff revision, the commission ordered commission staff (staff) to perform a cost-based rate analysis of the current rates and charges allowed in Tariff 15-C, and if necessary, to propose tariff revisions to the rate bands no later than January 1, 2020. Subsequently, Docket TV-190664, *Review of Commission Published Household Goods Tariff 15-C Rate Bands,* was created in compliance with the commission's order.

A stakeholder technical workshop was held on October 17, 2019, where staff explained its ratemaking approach and methodology. In addition, industry representatives provided discussion regarding their perceived deficiencies of the current tariff rates. Of those deficiencies the most commonly cited issues were growing traffic congestion, increased payroll expenses, rents, and truck costs, all contributing to greater challenges in recovering the companies' actual costs.

Participants of the workshop supported the idea that staff could begin gathering cost data from three representative moving companies for the purpose of examining the current costs of operations and the maximum tariff rates. However, due to concerns of confidentiality in this competitive industry, the data collection would take place, on-site, at each company's office. The first on-site visit took place mid-November, the second in the first week of December with the last site visit taking place the following week.

Because staff's analysis was still in progress, the commission issued Order 02 in Docket TV-180245 on December 19, 2019, extending both the expiration date of the allowed credit card processing fees and the deadline for staff's proposed revisions until February 29, 2020.

Analysis of current banded rates

The actual transportation of household goods is central to how customers are charged using the current banded rates. The transportation of household goods may be charged using either hourly rates (Item 230) or mileage rates (Item 200) depending on the total distance of the move. For moves 55 miles or less, the hourly rates apply. For moves over 55 miles, mileage rates apply. Being the main forms of compensation for an HHG move, these two rate schedules were the primary focus of staff's rate analysis.

The consensus opinion of the industry is that the current mileage rates are inadequate, so inadequate that many companies will not even make bids on long-distance moves, knowing they may end up losing money on the transaction. For example, there is limited to little ability for companies to adjust their charges for additional cost-causing activities, such as travel through known high-congestion areas. This is because allowed charges are limited to Item 200 rates, a rate schedule based on solely shipment weight and distance.

Another concern of the industry is that companies may only charge the tariffed mileage rate from the origin of the move, the customer's prior residence to the destination, normally the customer's new residence. This historical cost setting approach fails to recognize the incurred costs associated with the return trip from the destination back to the company's base facility, costs which can be significant on long moves. Staff recognizes that basic cost accounting requires return costs be recovered through the base tariffed mileage rates. Contrasting the mileage move described above with moves where only hourly rates apply, or Item 230 moves, companies may charge by the hour from the time the truck and crew leave the company's facility to the time they return to the facility. Additionally, for long-distance moves that require employees to stay overnight, current rate design does not allow for clear recovery of associated costs of overnight jobs but instead require the additional costs to be absorbed by the company's operating margin.

Finally, hourly rates (Item 230), storage-in-transit rates (Item 100), and warehouse handling charges (Item 100), were reviewed and also found to be insufficient.

Development of new proposed banded rates

Staff recognizes that the HHG industry operates in a competitive marketplace while remaining under the regulatory authority of the commission. All HHG companies must adhere to the minimum and maximum rates listed in Tariff 15-C. Therefore, the maximum tariff rates must be set at a level that enables companies to recover their costs and earn a reasonable return on their investment, especially for those that operate in high-cost areas. Recognizing high-cost areas define the upper boundaries, staff's review focused on setting rates that allow companies in high-cost areas to fully recover their costs and earn a profit. Staff expects that price competition will occur within the rate bands maintaining fair charges for the consumer, even for those consumers and companies serving outside the high-cost areas.

Staff reviewed cost makeup of the primary rates and charges listed in Tariff 15-C to determine whether the current maximum rates are adequately compensating the industry for the work being performed. Staff's analysis was based on operating data and financial information provided by the industry and was focused on companies operating in high-cost areas throughout the state. Staff visited the three representative moving companies to collect cost data and to receive input on potential revisions to Tariff 15-C. The companies provided employee wage data, overhead and truck costs, market rates for equivalent services, employee hours for various moves and services, along with other useful information.

Calculation – Banded Rates
To calculate the revised maximum Hourly Rates (Item 230), staff used a loaded hourly wage for a Class-A driver and applied an indirect per-hour cost factor to compensate for overhead, including credit card processing fees, and use of the common company assets. Staff then computed the impact of applying the commission standard 93% operating ratio for the transportation industry, while adjusting for revenue sensitive items such as sales commissions and revenue taxes. The resulting maximum hourly rate was approximately 7% higher than the current maximum hourly rate for a truck and driver. The calculated increase to the tariffed "*each additional worker*" per-hour rate was more substantial, increasing by approximately 19%, from $73.22 to $87.04. Overall, based on staff's calculations, the combined maximum per-hour rate for a driver, helper, and truck increased approximately 12% in total.

Hourly Rates	**Current Maximum Rate**	**Staff Revised Maximum Rate**	**Percent Increase**
Truck and Driver (Moves three hours or less)	$93.52	$99.92	6.8%
Truck and Driver (Moves more than three hours)	$90.50	$96.70	6.8%
Each Additional Worker (Moves three hours or less)	$73.22	$87.04	18.9%
Each Additional Worker (Moves more than three hours)	$70.69	$84.03	18.9%

To calculate the revised maximum Mileage Rates, staff applied its revised hourly rates to actual employee hours for various combinations of weights and mileages, as provided by the industry. Based on staff's analysis, the industry's criticisms about the inadequacy of the current maximum mileage rates are valid. Staff calculates an average increase to the maximum mileage rates of approximately 56%. The amount of increase varies based on the mileage and weight mixtures.

Mileage Rates (charged per pound)	**Current Maximum Rate**	**Staff Revised Maximum Rate**	**Percent Increase**
4,000-7,999 lbs. 55 to 60 miles	$0.2919	$0.3891	33.3%
4,000-7,999 lbs. 100 to 110 miles	$0.3326	$0.4755	43.0%
4,000-7,999 lbs. 200 to 220 miles	$0.4160	$0.6268	50.7%
4,000-7,999 lbs. 400 to 420 miles	$0.5639	$0.7889	39.9%
4,000-7,999 lbs. 500 to 520 miles	$0.6283	$0.8862	41.0%

While there are a several factors contributing to the 56% average increase, one of the primary cost drivers is caused by allowing for recovery of the return trip costs to the facility once a shipment has been delivered to the destination. On long-distance moves, the return trip to the company's facility is only recoverable through the corresponding mileage rate from origin to destination. To address this, the employee hours used for calculation of the revised rates included the travel times from both the facility to the origin, and from the destination back to the company's facility. The revised rate schedule would still be applied in the same manner but should now compensate for these additional costs. Also, the proposed increase to the maximum rates should allow the companies more flexibility when preparing estimates for long-distance moves travelling through high-congestion areas.

Staff's tariff revisions also include for the first time an allowance for a per-diem charge. The new tariff charge allows companies to charge for per-diem when employees are required to stay overnight on long-distance moves. It also recognizes that Federal laws and regulations related to the HHG industry require drivers to stop and rest during long hauls. The proposed rate bands are based on the minimum and maximum per-diem rates published by the Washington Office of Financial Management. These additional charges would only be allowed if quoted and agreed upon on the signed written estimate.

Other rates and charges

While the focus of staff's analysis has been on the hourly and mileage rates, there are other rates that have been addressed in staff's proposed revisions. Staff's revisions include changes to the maximum rates for Storage-in-Transit and Warehouse Handling (Item 100), Container Rates (Items 196 and 225), Packing Charges (Item 195), and Overtime (Item 50), along with changes to some ancillary charges throughout Tariff 15-C. The increases to these rates were calculated using either actual costs, when available, equivalent market rates, or in the absence of these, inflation growth since the last increase to the specific tariff rate. Most significant amongst these changes is staff's proposed revision to Warehouse Handling, which was revised based on actual per-hour costs and employee hours. Staff's proposed revision would more appropriately reflect the cost of providing this service and is comparable to the rates companies charge for warehouse handling on permanent storage and interstate moves, both equivalent non-regulated activities.

Tariff Item	**Current Maximum Rate**	**Staff Revised Maximum Rate**	**Percent Increase**
Storage-in-Transit (per 100 lbs. per 30 days)	$2.35	$5.85	149%
Warehouse Handling In or Out (per 100 lbs.)	$2.13	$8.98	321.5%
Packing Charges (Average)	Various	Various	21.4%
Container Rates (Average)	Various	Various	26.3%
Overtime	$18.96	$21.26	12.1%

Finally, credit card processing fees have been addressed in staff's proposed Tariff 15-C. To maintain consistency with the commission's other regulated industries, the line-item charge for credit card processing fees added in the most recent revision to Tariff 15-C has been removed. These charges have instead been embedded in the revised maximum mileage and hourly rates.

While the issue of revisions to the minimum rates was discussed at the technical workshop, staff is not proposing changes to minimum rates at this time.

Conclusion

The proposed tariff revisions will allow recovery of costs while providing a reasonable return. Though the bands are developed for high-cost moves in high-cost areas, rate banding allows for price competition to occur within the rate bands for lower cost moves and in lower cost areas.

Staff recommends the commission issue an order approving the tariff revisions to Household Goods Movers Tariff 15-C as proposed by Staff, effective February 21, 2020.