

Agenda Date: March 27, 2008
Item Number: B6

Docket: TV-080483
Company Name: Washington Movers Conference of the Washington Trucking Associations

Staff: Gene Eckhardt, Assist. Director of Solid Waste, Water and Transportation
Chris Mickelson, Regulatory Analyst

Recommendation

Set for hearing the Washington Movers Conference's petition to reinstate the fuel surcharge method.

Discussion

On March 14, 2008, the Washington Movers Conference (WMC) of the Washington Trucking Associations, filed with the Washington Utilities and Transportation Commission (commission) a petition asking the commission to reinstate the household goods fuel surcharge tariff. WMC states its petition is based upon the sudden and continuing rapid escalation cost of diesel fuel.

Background

The commission relaxed economic regulation of the household goods industry in 2000. Entry was opened by implementing a permit system, focused on compliance with commission operating requirements, consumer protection, and safety and insurance, instead of the far more restrictive "public convenience and necessity" standards then in effect. Rate regulation was relaxed by establishing a band of Maximum Rates and Charges (20 percent greater than rates then in effect) and Minimum Rates and Charges (40 percent less than the Maximum Rates and Charges).

The commission sets rates and charges for the transportation of household goods statewide. RCW 81.80.150 requires the commission to publish the tariff for the transportation of household goods.

WAC 480-15-490 (2)(b)(ii) required the commission to adjust the Maximum Rates and Charges each June 1, through 2005, using the first quarter Implicit Price Deflator (IPD) of the Gross Domestic Product. The last rate increase became effective June 1, 2005.

Staff and the industry discussed rate setting issues, but did not agree on a rate setting method to replace the IPD methodology that expired June 1, 2005. During the 2007 household goods rulemaking (Docket TV-070466), the carriers stated they needed rate increases for transporting shipments 35 miles or greater (distance and weight), packing and unpacking services (containers and labor), and Storage-In-Transit services.

On August 8, 2007, the WMC petitioned the commission to:

1. Increase the Maximum Rates and Charges contained in the current WUTC Tariff 15-B by 25 percent.
2. Fix the Minimum Rates and Charges at no less than 40 percent below the Maximum Rates and Charges, which WMC understands is required by WAC 480-15-490.
3. Cancel all current WUTC Tariff 15-B Fuel Surcharge Supplements. There were two fuel surcharge supplements in effect at that time: Supplement No. 2006-1 (2.00 percent) and Supplement No. 2007-8 (4.75 percent).

The WMC's members transport household goods for hire between points in the state of Washington under permits issued by the commission. The WMC stated that business and operational costs had increased since June 1, 2005, including, but not limited to:

- Employee wages and benefits packages.
- Vehicle and equipment purchases and maintenance.
- Cost of fuel and lubricants.
- Appropriate advertising and vehicle markings.
- Maintaining proper storage facility needs.
- Cost of packing materials and associated furniture handling equipment.
- Cost related to Federal and State road congestion.
- State, County, and City business taxes and fees.

The rate adjustment method using the IPD method that expired in June 2005 had increased 5.84 percent. The compounded increase of the two fuel surcharges (6.8 percent) and the 5.84 percent IPD (which contains a fuel component) is approximately 13.1 percent. Staff concluded that it appeared that the proposed 25 percent increase and cancellation of the effective fuel surcharge supplements would bring rates and charges to current cost levels, provide carriers with additional pricing flexibility in marketing premium services, and give carriers additional margin to absorb short term changes in operating costs, such as fuel.

The commission approved the 25 percent increase to all rates and charges in WUTC Tariff No. 15-B, and cancelled the two fuel surcharges effective August 17, 2007.

Staff believes the commission should regulate rates to the same degree that companies face entry barriers (economic or legal). For all practical purposes, there are no economic or legal barriers to enter the household goods industry. Many companies have entered the business since 2000, companies compete in many areas, and new companies have the opportunity to enter any markets. Therefore, the commission should set rates that give carriers maximum flexibility in pricing their services.

Carriers can price transportation services at the current Minimum Rates and Charges, but can charge up to 108 percent more.

The WMC now asks the commission to reinstate the fuel surcharge method that was in effect prior to August 17, 2007. That is, the WMC asks the commission to treat fuel as a single item cost. The commission increased fuel by 18.2 percent (25 percent minus 6.84 percent in fuel surcharges) more than the fuel surcharges in effect in August 2007. Staff's review of the fuel surcharge method shows that fuel prices have increased approximately 29.5 percent since September 2008. At best, there may be an argument that the commission should consider a fuel price increase of 11.3 percent (29.5 percent increase since September 2007 minus 18.2 percent that the commission approved in August 2007), which when applied to fuel as a percentage of total revenue (5.35 percent) would result in a .6 percent fuel surcharge.

Staff recommended, and the commission approved, a 25 percent increase in all rate and charges effective August 17, 2007, with no demonstration of revenue need. Staff believes that recommendation was, and is, consistent with the commission's degree of entry regulation. The current rate band spans 108 percent. One of the reasons staff recommended the 25 percent increase is that staff believed that would give carriers additional margin to absorb short term changes in operating costs, such as fuel.

Staff recommends the commission:

1. Not reinstate the fuel surcharge methodology. Calculating a fuel surcharge to one-tenth of one percent of total revenue gives a false impression of accuracy through precision. The rates have a 108 percent band.
2. If the commission believes the carriers are entitled to rate relief, staff recommends the commission increase the maximum rate band. However, the carriers have provided no financial data that would establish a basis for increasing the maximum rate band.

Conclusion

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