

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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In the Matter of the Complaint)
Against Bremerton-Kitsap) **DOCKET NO. TC-001846**
Airporter, Inc., C-903)
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.....)

REBUTTAL TESTIMONY OF
ROBERT COLBO
STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

November 27, 2001

1 **Q. Mr. Colbo, have you had a chance to review the direct testimony and exhibits**
2 **of Mr. Burton and Mr. Asche in this proceeding?**

3 A. Yes, I have.

4
5 **Q. Would you please respond to the discrepancy that Mr. Burton points out at**
6 **Page 3 of his testimony between his per books figures for Interest Income,**
7 **Dividend Income, and Capital Gains Distributions and your own?**

8 A. I agree there is a discrepancy between his numbers and mine on these items. The
9 only explanation I can provide is that the company supplied me with different
10 numbers for those items than it did Mr. Burton. I have prepared Exhibit ____
11 (RC-18) which is a photo-reduced copy of the original data supplied to me by Mr.
12 Berebitsky on December 21, 2000. It confirms that the company provided the data
13 on Page 1, Column (a) of Exhibit ____, (RC-6). In any event, Mr. Burton and I both
14 zero out these amounts in subsequent restating adjustments.

15
16 **Q. Please discuss the \$10,767 credit from the Washington Department of Labor**
17 **and Industries and C3HRM and included in the Payroll Tax account?**

18 A. Mr. Burton has removed the credit stating it represents refunds of premiums related
19 to prior periods and that the full amount should therefore be excluded. My position
20 is that by their very nature such refunds (or additional premiums due) are on-going,
21 “truing up” premiums paid versus actual claim experience. To fully zero out the
22 credit as Mr. Burton is proposing negates any of the savings (or charges) from this
23 or any future adjustments to ever be passed on to the benefit (cost) of ratepayers.

1 Therefore, the full current credit amount would accrue solely to the benefit (loss) of
2 the company. I recommend the Commission adopt the method I proposed in my
3 Restating Adjustment 4 to amortize the credit over a three year period, which would
4 yield a more normalized basis upon which set permanent rates.

5
6 **Q. What is your response to Mr. Burton's Restating Adjustment No. 8 increasing**
7 **the Fuel Tax credit adjustment from \$22,385 to \$22,984?**

8 A. I agree with that adjustment.

9
10 **Q. How do you respond to Mr. Burton's Proforma Adjustment No. 4 including**
11 **\$100,000 of post May 14, 2001, legal expenses related to this docket?**

12 A. I am opposed to B-K Airporter recovering any of its legal costs incurred in this
13 docket in rates. As I stated on the Page 37 of my testimony in Exhibit T-____, (RC-
14 1T), this company has a long history of unsupported rate applications, and this case
15 is no exception. Furthermore, Mr. Burton states that his \$100,000 amount is
16 estimated, not actual. Finally, to include the full amount in the expense base used
17 to determine rates would imply that such costs would be recovered in the next year
18 and again each year thereafter unless rates were adjusted after the first twelve
19 months. Clearly this would be inappropriate. The Commission routinely amortizes
20 reasonable rate case costs over 3 years. Due to the unusual nature of this rate filing,
21 now turned into a complaint, I recommend the Commission amortize any allowed
22 costs over 5 years, the length of time the company over-earned.

1 **Q. Both Mr. Burton and Mr. Asche allude to hardships that will ensue if the staff**
2 **recommendations are followed, particularly regarding the future acquisition of**
3 **additional revenue equipment (i.e. busses and vans). What is your response to**
4 **these concerns?**

5 A. Rates are not set with the purpose of generating capital in advance to purchase
6 equipment. It is a shareholder function to provide capital, either through retained
7 earnings, additional investment or by borrowing the needed funds. After assets are
8 acquired and put into service, Staff includes depreciation expense on that
9 equipment. Earnings from operations, including depreciation expense, is one
10 source of capital that can be used in the future for whatever purpose management
11 may desire. The fact that B-K Airporter has never had to borrow funds in the past
12 is no reason to expect that it can't or shouldn't do so in the future. A 100 % equity
13 capital structure such as B-K Airporter's is not the norm in this industry; it is the
14 exception rather than the rule. A more balanced capital structure including debt
15 would be more economically realistic. Indeed, since debt is a more cost effective
16 source of capital than equity, it will also help provide for more reasonable fares for
17 passengers.

18
19 **Q. What about the prospects that both Mr. Asche and Mr. Burton raise that the**
20 **company might have to cut service and lay off drivers, particularly after the**
21 **implied reduction in demand following the tragic events of September 11,**
22 **2001?**

1 A. As to the implication that demand has decreased for this company following
2 September 11th, I can only say that the company filed a revised time schedule
3 seeking to reduce the number of daily runs to the airport in Docket TC-011318 on
4 September 21, 2001. That filing was subsequently withdrawn on October 9, 2001.
5 That issue is not before us here. Regarding the result if future rates are rolled back
6 as proposed in my original testimony, rate levels would be adequate to continue
7 existing levels of service, pay all reasonable operating costs, and allow a reasonable
8 return as adjusted for the effect of the five previous years of over- earning.

9
10 **Q. Regarding the uncertainties Mr. Burton expresses about the material**
11 **portrayed on page 10 of Exhibit ____, (RC-9), concerning executive**
12 **compensation for other airporter services regulated by the Commission, what**
13 **additional clarification can you now provide?**

14 A. That material is the summary information derived from my review of Staff
15 workpaper files of other recent airporter rate increase dockets that came before the
16 Commission. The docket number and the name of the company are shown across
17 the top of the page in Columns (a) through (e), with the current B-K Airporter
18 information summarized in Column (f). These workpaper files are available for
19 inspection by anyone who wants to review them. The categories of extracted
20 information is disclosed on Lines 1 – 10. By way of clarification, “FTE” refers to
21 Full Time Equivalent employees. The derived calculations on Lines 11 – 18 are
22 further explained as follows:

- 1 • 1) “Psgrs/Vehicle/Yr on Line 11 is shorthand for Passengers per Vehicle per
2 Year. It is Line 3 divided by Line 4 or 5, or the sum of Lines 4 and 5.
- 3 • 2) “Exec Salary per Psgr and Exec Salary per Psgr per FTE” on Lines 12 and
4 13 are shorthand for Executive Salary per Passenger and Executive Salary per
5 Passenger per FTE. They are Line 7 divided by Line 3 on Line 12, and Line 12
6 divided by Line 8 on Line 13, respectively.
- 7 • 3) “Psgr/Dvr FTE/Yr” on Line 18 is shorthand for Passengers per Driver FTE
8 per Year. It is Line 3 divided by Line 6.
- 9 • 4) The FTE amounts on Line 8 tell how many executive FTEs earn the amount
10 shown on Line 7. The FTE amounts on Line 10 tell how many management
11 people it is that earn the amounts shown on Line 9, and are an indication of the
12 executive’s span of control.

13

14 **Q. Mr. Burton and Mr. Asche both testified to the uncertainties regarding the**
15 **“Credit Account” you recommended on page 36 of your original testimony in**
16 **Exhibit ____, (RC-T1). What additional information can you offer to further**
17 **clarify what you meant?**

18 A. Any type of escrow account opened and maintained by the company would be
19 suitable for this purpose. Staff would not have anything to do with the day-to-day
20 operation of the account. Annually for the next three years, the company would
21 deposit into the account any revenues it had in excess of that which generated a
22 97.00 % operating ratio. When the company filed a rate case, any money contained
23 in the account would be used to offset any revenue requirement otherwise derived.

1 **Q. What about Mr. Burton's comments on page 8 relating to Mr. Asche's salary**
2 **and its incomparability to other public transportation entities that have less**
3 **entrepreneurial risk?**

4 A. Risk should be reflected in the company's overall return, not owner's allowance. In
5 the proper context, owner's allowance simply reimburses the executive in
6 accordance with his or her actual duties. To the extent the owner performs
7 executive tasks, the owner receives executive compensation. To the extent the
8 owner is involved with other management or operational aspects of the business,
9 sometimes even driving, the owner would receive less compensation for those types
10 of duties. B-K Airporter already employs others who are responsible for
11 operational coordination, safety administration, and comptroller responsibilities.

12
13 **Q. Have you compared Mr. Asche's duties with the duties of the executives of the**
14 **public transportation entities you used in your survey?**

15 A. Ms. Dobyys compiled Exhibit ____, (RC- 19) that lists the common duties of senior
16 management personnel of the public transportation entities. It compares well with
17 the duties included by Mr. Asche in his testimony and in response to Staff Data
18 Request No. 3 at Page 28 of Exhibit ____, (RC-9). To the extent that these public
19 executives delegate more aspects of their operations to lower paid staff, their
20 individual duties are at a level somewhat higher than those performed by Mr.
21 Asche.

1 **Q. What about the assertion by Mr. Burton on Page 8 of his testimony that your**
2 **comparison with public transportation entities relies solely on total revenues?**

3 A. That statement is in error. In addition to revenue, Page 10 of Exhibit ____, (RC-9)
4 shows the numbers of passengers transported on Line 3, the number of busses/vans
5 operated on Lines 4 & 5, and the number of FTE drivers employed on Line 6. The
6 number of managers the executive(s) manages is shown on Line 10. Similar
7 information is shown on Pages 12 & 13. Passenger boardings and total number of
8 FTE employees are shown on Lines 2 & 3 and 6 & 7 of Page 14. Pages 24 & 25
9 also show total number of company employees. I would also note that the variety
10 of service offerings is much more extensive for the public transportation entities
11 than it is for B-K Airporter. More extensive service offerings indicate more
12 complex operations, all of which indicate the job responsibilities of the public
13 sector managers are far more complex than the duties of Mr. Asche.

14
15 **Q. Do you agree with Mr. Burton's statement on Page 8 of his testimony in**
16 **Exhibit ____, (WTB-T__) that none of the public sector transit executives**
17 **compensation depends on the profitability or viability of the financial**
18 **performance of their employer?**

19 A. No I do not. For instance, Mr. Cameron of Cowlitz Transit Authority received a
20 10% merit pay award and Mr. Lundstrom is eligible for a 5% merit pay award as
21 well. The public today demands greater accountability from the government.
22 Government, faced with ever growing budget deficits, demands more from all
23 public sector employees. To imply that the key executives of these public

1 transportation entities are not held accountable for operating results oversimplifies
2 the facts.

3
4 **Q. What is your response to Mr. Asche's statement at Page 5 of his testimony that**
5 **his company is paying him at or slightly below market rent for the offices and**
6 **terminals it leases from him?**

7 A. It is interesting, but ultimately not relevant. The company—and the ratepayers—
8 would be much better off had the company bought the building itself under the
9 terms obtained by Mr. Asche. Particularly in light of the fact that the company has
10 no debt, it would clearly have lowered the company's expenses to have purchased
11 the property itself rather than leasing from Mr. Asche at well above his cost. It was
12 imprudent for the company to enter into this lease when it could have purchased the
13 building itself.

14
15 **Q. Mr. Burton and Mr. Asche both testified as to the punitive nature of your**
16 **recommendation to reduce present rates. What response do you have to those**
17 **concerns?**

18 A. As I stated in my original testimony at Page 34 and demonstrated in Exhibit ____,
19 (RC-16), there are several instances in the past where the Commission lowered
20 present rates when changing circumstances indicated it was necessary. To do
21 nothing in this case after 5 years of excessive earnings would be to ignore those
22 earlier efforts and the provisions of RCW 81.04.360

1 **Q. Does this conclude your rebuttal testimony?**

2 A. Yes, it does.