

Agenda Date: December 31, 2002

Item Number: B1

**Docket:** TC-021578

**Company:** Bremerton-Kitsap Airporter, Inc., C-903

**Staff:** Bob Colbo, Transportation Program Staff

**Recommendation:**

Suspend the tariff application of Bremerton-Kitsap Airporter, Inc., C-903, contained in Docket TC-021578.

**Discussion:**

On December 2, 2002, Bremerton-Kitsap Airporter, Inc., (Bremerton-Kitsap or Company) filed a new Tariff No. 8 that proposes increased passenger fares to become effective January 1, 2003. Bremerton-Kitsap provides passenger service to and from Sea-Tac Airport from points in Kitsap and Pierce Counties. Present rates became effective August 24, 2002, when the Commission, in Docket TC-001846, ordered the Company to decrease Kitsap County fares by \$2.00 and increase Pierce County (Ft. Lewis and McChord AFB) fares by \$2.75. The Company now proposes to increase all Kitsap County passenger fares by \$2.00, increase all Pierce County fares by \$1.25, and increase excess baggage charges by \$1.00. The proposed rates would increase revenue by \$233,584 (14.8 %). Bremerton-Kitsap states it must increase fares because the Commission previously ordered the Company to lower its fares, past and future pay increases for employees, and increases in insurance costs.

The Company's supporting justification includes a pro forma income statement for the 12 months ended August 31, 2002. The Company provided additional supplemental information, as requested by Staff. The test period includes the effects of the September 11, 2001, terrorist attacks that caused significant

reductions in passenger counts, and therefore revenue, at least through December 2001. Bremerton-Kitsap's historical passenger data shows that although Kitsap County passenger counts decreased for September through December 2001, the counts appear to have recovered for 2002. Passenger counts for the Pierce County routes decreased starting September 2001, and it appears they have not returned to their former levels.

Fundamental ratemaking principles require the Commission to use a representative test period. The unique events of September 11, 2001, make passenger and revenue data unreliable for at least the first four months of the test period. In an attempt to present the Commission with the best available information, Staff used actual customer counts from outside the test period (September 2002, October 2002, November 2002, and December 2000) to impute additional customers and revenue on the Kitsap County segment for the purpose of adjusting revenue to a more representative number. (See Pro Forma Adjustment No. 2)

This approach seems to violate another fundamental ratemaking principle, matching revenues and expenses. However, the Company operated the same number of runs over the entire period used by the Staff and, therefore, the test period expense levels may provide a reasonable estimate of operating expenses for a twelve-month period.

Staff's analysis differs from the Company in two other areas, depreciation and treatment of future wage increases. Staff used the depreciation method (four-year van service life) proposed by the Company and approved by the Commission in Docket TC-001846. The Company uses a different method. The Company has also wavered in its determination to give future pay increases to drivers in view of the Staff's recommendation that the Commission suspend its filing.

Staff used the same cost separations and stand alone rate design that we proposed and the Commission adopted in Docket TC-001846. The separated pro forma operations of the Company show the Company underestimated its need for the Pierce County operations and overstated its need in Kitsap County. Staff agrees with the full amount of the proposed \$1.25 Pierce County fare increase. However, Staff's analysis indicates the Company needs only \$0.32 of the proposed \$2.00 increase for Kitsap County.

The Company is reluctant to increase Pierce County fares any further for fear of losing customers, and regards the \$0.32 Kitsap County amount as insufficient. Differences between Staff and the Company center on the representativeness of the Company's test period, the service lives of busses and the resulting depreciation expense, and the certainty of proposed future pay increases for drivers.

Staff recommends the Commission suspend the tariff application of Bremerton-Kitsap Airporter, Inc., C-903, contained in Docket TC-021578.

Attachment