Dockets TG-130501/TG-130502
Witness: Melissa Cheesman

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. MURREY'S DISPOSAL COMPANY, INC., G-9, Respondent. .... WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. AMERICAN DISPOSAL COMPANY, INC., G-87, Respondent.	DOCKETS TG-130501 and TG-130502 (*consolidated*) STAFF TESTIMONY IN RESPONSE TO BENCH REQUEST NO. 2

TESTIMONY OF

Melissa Cheesman

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

September 03, 2013

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I. INTRODUCTION

Q. Please state your name and business address.

A. I am Melissa Cheesman. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission ("Commission") as a Regulatory Analyst.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since June, 2012.

Q Would you please state your educational and professional background?

A. My highest degree earned is a Masters of Professional Accounting (MPAC) from Seattle University. I have attended the Western NARUC Utility Rate School. I have audited the following general rate case dockets (from most current to oldest): TG-131121, TG-130502, TG-130501, TG-121791, TG-121510, and TG-121044. Additionally, I have audited the following disposal fee and utility tax rate cases (from most current to oldest): TG-130060, TG-130054, and TG-121767.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. Please explain the purpose of your testimony.

A. In Bench Request No. 2, the bench directed the Companies and Staff to each provide written testimony "in support of the Settlement Agreement's proposals, including the resolution of the accounting issues enumerated within Staff's Narrative, and the costs and benefits of these proposals." My testimony responds to this request on the part of Staff. I have included a discussion of the accounting issues in Section III and the adjustments made to the Companies' filed case as a part of the Settlement Agreement in Section IV. I describe the rate spread and rate design aspects of the settlement in Section V.

Q. Please summarize the Settlement Agreement.

A. The Settlement Agreement would increase Murrey's Disposal Company, Inc. ("Murrey's"), and American Disposal Company, Inc. ("American"), or ("the Companies"), annual revenue by $1,043,966 or 3.6 percent from current rates. This represents a reduction of $1,243,035 from the Companies' original request which was for an increase of $2,287,001 or 8.0 percent. The Settlement Agreement provides for an effective date on the first day of the month after the Commission's order in this docket. In addition, the parties have agreed the Companies can amortize the sale of assets and insurance claims in this test period over three years with the provision that the Companies file a general rate case no later than April 1, 2016, with a calendar year 2015 test period.

III. ACCOUNTING ISSUES

Q. Bench Request No. 2 asks the parties to address the resolution of the accounting issues listed in Paragraph 6 of Staff's Narrative in Support of Settlement Agreement. What was the purpose of this portion of Staff's Narrative?

A. WAC 480-07-740(2)(a) sets forth the elements to be included in a narrative supporting a settlement agreement. Among those elements is an outline of the underlying dispute. The list of accounting issues in staff's narrative was a part of Staff's response to this requirement. Staff has further outlined the accounting issues and their resolution in Section IV.

Q. Please discuss the overall accounting issues addressed in this case and incorporated in the Settlement Agreement.

A. There are several common accounting issues considered in this case including:

1) **Allocation of Expenses and Investment** - Staff follows the accounting guidelines that expenses should be directly assigned whenever possible. If costs cannot be directly assigned, they should be allocated based on reasonable cost drivers and supported in the general rate case. There are several layers of allocation. Specifically this includes corporate and regional allocations, allocations between other regulated entities, and allocations between regulated and non-regulated entities. Staff's investigation found that allocation of salaries, investment, and other expenses needed to be adjusted to reflect a reasonable

allocation to the regulated results. Allocations were addressed in most of the adjustments made to the revenue requirement in this case. All adjustments except for (a) Self-Insurance Expense,(b) Disposal Fees, and (g) Sale of Assets, (in Table 1) addressed allocation of expense.

2) **Affiliated Transactions** - Affiliated transactions were revised in this case to ensure that they are supported cost based, or lower of cost or market, and exclude costs not appropriate for ratemaking.

3) **Unusual or Extraordinary Expense** – Staff identified two items in this category, Adjustment (a) Self-Insurance Expense and Adjustment (g) Sale of Assets which are contained in Table 1. Staff proposed amortizing the extraordinary insurance over four years and agreed in settlement to normalize the account based on a three-year average which is more indicative of the future than including the extraordinary expense in one year. Staff proposed amortizing the extraordinary loss on the sale of assets over five years and agreed in settlement to amortize the expense over three years.

4) **Expenses not allowed in the Ratemaking Process** – Staff removed other items that were not appropriate for rate making including: plant not currently used or useful to provide regulated service, lobbying, contributions, certain legal expense, certain entertainment and community activities.

5) **Proper Pro Forma Adjustments** – Staff agreed in settlement to the Companies' presentation of the Disposal Fee increase received on March 1, 2013, because the rate design eliminated the additional revenue requirement and the difference was immaterial.

IV. REVENUE REQUIREMENT

Q. Please explain the rate increases proposed in the Settlement Agreement.

A. After thorough discussions, the parties agreed that the Companies would reduce their initial request to reflect a rate increase of $1,043,966 or 3.6 percent in annual revenue. Each of the parties agreed to concessions on matters and therefore individual adjustments, while they have separate characteristics, should be viewed as part of the overall Settlement Agreement. The following table provides a summary of adjustments applied to the Companies original requested annual revenue increase $2,287,001 resulting in the proposed rate increase of $1,043,966 as agreed to by the parties in the Settlement.

TABLE 1
American and Murrey's Disposal Companies
Adjusted Revenue Requirement

Line	Adj.		Revenue Requirement	Average Net Investment
1	Rate Increase as filed on April 8, 2013		$ 2,287,001	$10,644,380
2	a.	Self-Insurance Expense	(358,769)	
3	b.	Disposal Fees	(411,217)	
4	c.	Affiliate Transactions		
5		1. Account 41129 Inter-Company Brokerage Expense	(98,408)	
6		2. Tacoma Recycling Co., Inc. Comingle Processing Costs	(14,730)	
7	d.	Corporate and Regional Overhead Allocation	(74,033)	
8	e.	Allocation of Investment, Depreciation and Other Related Expen	(223,995)	(1,039,292)
9	f.	Salaries and Wages	(39,283)	
10	g.	Sale of Assets	(20,400)	
11	h.	Other Adjustments	(2,200)	
12		Total Adjustments	(1,243,035)	(1,039,292)
13	Settlement Agreement		$ 1,043,966	$ 9,605,089

Q. Please provide a brief description of the table and each adjustment or line item and the accounting issues that are related.

A. Line one in Table 1, represents the Companies revenue requirement as filed or \$2,287,001 and the related average net investment of \$ 10,644,380. The following provides a description of each adjustment and related accounting issues:

a. **Self-Insurance Expense** – The Companies maintain self-insurance for liability suits. The test period in this case includes an unusually large or extraordinary, non-recurring liability expense[1]. The Companies' filed case recovered this expense in one year. Staff originally proposed amortizing the extraordinary expense over four years. As part of the settlement, all parties agreed to normalize the expense account based on a three-year historical average. This adjustment reduces the Companies' revenue requirement by \$358,769.

b. **Disposal Fees** – Effective March 1, 2013, both American and Murrey's increased rates to recover Pierce County disposal fees in Dockets TG-130054 and TG-130060, respectively. Instead of preparing a pro forma adjustment reflecting this increase, the Companies adjusted the rate design and excluded any increase for the disposal fee[2]. This reduction in revenue requirement of \$411,217 is necessary to compensate for the Companies' presentation. After applying this treatment, no increase in garbage collection service rates is warranted.

c. **Affiliate Transactions** – Staff removed inter-company brokerage expense and adjusted the recycled materials processing costs from Tacoma Recycling Co.,

[1] The expense is related to prior year liability claims paid during the test year.

[2] The Companies' method first reduced the current tariff rate by the disposal fee increase and then increased the reduced rates by the percentage of additional annual revenue prescribed by the garbage Lurtio-Gallagher, divided by the test year revenue for garbage services.

Inc. ("Tacoma Recycling"), an affiliate of the Companies. The recycled materials processing costs are based on actual costs of Tacoma Recycling, however staff reduced those costs for certain non-reoccurring or extraordinary items considered not recoverable from regulated rate payers. These adjustments reduce the revenue requirement by $98,408 and $14,730, respectively.

d. **Corporate and Regional Overhead Allocation** – Staff adjusted overhead costs to exclude cost not recoverable in rates. Examples of these excluded costs are depreciation related to non-regulated operations, non-reoccurring expenses, lobbying, community activity, and performance bonuses. This adjustment lowers the revenue requirement by $74,033.

e. **Allocation of Investment, Depreciation and Other Related Expense** – The Companies own a "transfer station", in Fife, that is also used by an affiliated company, DM Disposal, Inc., that handles non-regulated contracts. Instead of each collection truck going directly to the county transfer station or landfill, the drivers bring their loads to the closest site at the end of the driver's route for disposal. The transfer station in Fife, during the test year, received approximately 43.3 percent of its solid waste from DM Disposal, Inc. and 56.7 percent from the Companies. Staff adjusted the allocation of the transfer station investment and expense to regulated and non-regulated entities based on actual tonnage. Staff's adjustment is reflected in the Settlement Agreement. In addition, Staff made several adjustments to property records including reconciling asset values to invoice amounts, adjusting plant lives and salvage values[3], removing assets no

[3] Based on Governmental Accounting Standards Board's (GASB) Statement No. 34 and Uniform System of Accounts for Class A and B Solid Waste Collection Companies

longer in service, and rental expense and property tax related to non-regulated operations. After a detailed review, the parties agreed to an overall adjustment which reduces the revenue requirement by $223,995 and reduces average net investment by $1,039,292.

f. **<u>Salaries and Wages</u>** – This adjustment re-allocates the Division Vice President's salary and benefits between operating units based on revenue and adjusts certain bonuses and accruals for bonuses not paid, offset by the inclusion of a new position, Waste Reduction Specialist for Pierce County. The original filed case includes fifty percent of the Division Vice President's salary which was reduced to twenty-three percent to reflect an allocation based on actual respective operating unit revenues. Twenty seven percent of the Waste Reduction Specialist's wages were included based on the employee's actual activity log kept. This net adjustment reduces the revenue requirement by $39,283.

g. **<u>Sale of Assets</u>** – The test period included a loss for the sale of assets. Staff originally considered adjusting the test period to reflect a five year amortization of this amount. The Settlement Agreement reflects a three year amortization. This adjustment reduces the revenue requirement by $20,400.

h. **<u>Other Adjustments</u>** – There were several other miscellaneous adjustments to legal fees, safety and training, employee community activities, lobbying expense, contributions, other taxes, meals and entertainment. This net adjustment decreases the revenue requirement by $2,200.

Line 12 entitled "Total Adjustments", represents the overall reduction to the revenue requirement of $1,243,035 and rate base reduction of $1,039,292 from the

Companies original filing. Line 13 reflects the revenue requirement deficiency of $1,043,966 to be collected in rate increases.

V. RATE SPREAD AND RATE DESIGN

Q. Please explain the rate spread and rate design proposed in the Settlement Agreement.

A. As stated above, there is no increase needed for garbage collection rates.[4] For recycling service, the rate spread applies an equal percentage of 20.98 percent. An equal percentage of 10.51 percent reflects the rate spread used for yard waste services. Attachment B of the Settlement Agreement provides detail of the proposed tariff schedule increases.

VI. CONCLUSION

Q. Please explain why Staff supports the Settlement Agreement and recommends its approval by the Commission

A. Staff believes the Settlement, if accepted by the Commission, would result in rates that are fair, just, reasonable, and sufficient. Moreover, the Settlement will not be used to resolve issues in any future proceeding, except as set forth in paragraph twelve of the Settlement for the amortization of certain costs and the requirement to file a general rate case.

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[4] New rates went into effect March 1, 2013 to reflect disposal fee increases for both American and Murrey's in Dockets TG-130054 and TG-130060, respectively.

Q. Does this conclude your testimony?

A. Yes.