**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

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| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant,v.WASTE CONTROL, INC., G-101, Respondent. | )))))))))) | DOCKET TG-131794 |

**PREFILED DIRECT TESTIMONY**

**OF JOE WILLIS,**

**WASTE CONTROL, INC.**

**OF FEBRUARY 18, 2014**

**I. IDENTIFICATION OF WITNESS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION AT WASTE CONTROL, INC.**

A. My name is Joseph Willis. My business address is 1150 3rd Avenue, Longview, Washington, 98632. I am president of Waste Control, Inc. and officer and shareholder of various commonly owned affiliate sister companies of Waste Control, Inc.

**Q. CAN YOU PROVIDE A LITTLE BACKGROUND ON YOUR ROLE, EDUCATIONAL BACKGROUND AND EXPERIENCE WITH THE COMPANY?**

A. Certainly. Waste Control, Inc. was started by my father, Stanley Willis, in 1949 as “Stan’s Sanitary” and has operated under Washington Utilities and Transportation Commission jurisdiction since the enabling laws were enacted in 1961. I literally “grew up” at the company, working summers during high school and college in various aspects of solid waste collection operations. In 1983, I obtained a Bachelor of Arts in entrepreneurship and business management from Seattle Pacific University. Upon graduating from college, I had a particular interest in banking and finance but after graduation my father asked if I wanted to come down to the company and see what I might be able to do working with him.

**Q. HAVE YOU BEEN WITH THE COMPANY EVER SINCE COLLEGE?**

A. Yes. Actually one of my first initiatives at the company when I started full time in 1983 was to launch computerization of the accounting and bookkeeping records which my father had not focused upon.

**Q. SINCE 1983 HAVE YOU HAD A PARTICULAR JOB EMPHASIS AT THE COMPANY?**

A. Generally, yes. I have always been involved in the financial and administrative side of the business, oversee office management and similar sorts of tasks. However, I also have substantial responsibility in the operational area including routing decisions, and oversee city contract administration, work with the finance and administration departments of cities and counties and handle governmental relations including presenting on behalf of the company at various city, county and state forums.

**Q. HAVE YOU IN FACT SUBMITTED TO STAFF DURING THE AUDIT PHASE OF THIS CASE JOB DESCRIPTIONS FOR BOTH YOU AND YOUR BROTHER, KEVIN, THAT DESCRIBE YOUR VARIOUS JOB FUNCTIONS AT WASTE CONTROL, INC. AT THE PRESENT TIME?**

A. Yes and that Exhibit is attached and marked JW-2A and 2B.

**Q. IN YOUR FINANCE AND ADMINISTRATION RESPONSIBILITIES DO YOU ALSO HAVE GENERAL FAMILIARITY WITH REGULATED RATEMAKING AND GENERAL RATE CASES BEFORE THE WUTC?**

A. Yes. Since 1983 I have been involved in working with in-house and outside accounting staff to prepare and submit various general rate cases at the Washington Utilities and Transportation Commission.

**Q. GETTING BACK TO YOUR BACKGROUND WITH THE COMPANY, CAN YOU PLEASE DESCRIBE WHEN STAN’S SANITARY MORPHED INTO “WASTE CONTROL, INC.”?**

A. Yes. In approximately 1987, upon indications from my father that he wanted to transition out of owning and running the business, my brother Kevin and I formed Waste Control, Inc. to continue to house the company’s regulated solid waste operations as the primary successor to Stan’s Sanitary.

**Q. ARE THERE OTHER COMPANIES RELATED TO WASTE CONTROL, INC.?**

A. Yes. While there is no parent company, there are five other separate sister entities that are engaged in some aspect of the local and regional solid waste or commercial recycling industries.

**Q. ARE YOU PROVIDING AN EXHIBIT THAT DESCRIBES WASTE CONTROL, INC. AND THOSE OTHER COMPANIES’ OPERATIONS?**

A. Yes. Identified as Exhibit JW-3, are pages from recent notes to our financial statements which succinctly set forth the nature of those other entities’ operations.

**Q. IS THERE ANOTHER COMPANY NOT MENTIONED ON EXHIBIT JW-3 THAT YOU ALSO OWN WITH KEVIN WILLIS?**

A. Yes. Heirborne Investments II is an LLC which we own but is purely a real estate company unrelated to any of the solid waste/recycling entities except for a spare warehouse rented to WCI for painting trucks and storage of office equipment and files which it owns.

**Q. WAS ONE OF THOSE ENTITIES ACTUALLY FORMED BEFORE WASTE CONTROL, INC. WAS INCORPORATED?**

A. Yes. Waste Control Recycling, Inc. was actually formed by my father on or around 1974, and was a forerunning Washington company dedicated to development of an infant industry at that time, recycling. Because of Longview’s long history in the paper mill industry, recycling of paper products particularly was a logical expansion for our solid waste operations and as people in the late 1960s and early 1970s woke up to the environmental benefits of reclaiming and recycling timber-based products, it was a timely business formation.

**Q. SINCE THAT TIME HAVE YOU OR YOUR BROTHER KEVIN FORMED OTHER RELATED COMPANIES?**

A. Yes and we have those described as noted on Exhibit JW-3.

**Q. WHAT IS THE RELATIONSHIP OF WASTE CONTROL, INC. TO THESE OTHER COMPANIES?**

A. We are sister companies, and as attached Exhibit JW-4 seeks to demonstrate, we all interact with each other in some capacity in the solid waste recycling collection equipment and real property operation context.

**Q. AGAIN, IS THERE A PARENT COMPANY OF WASTE CONTROL, INC. OR DO ANY OF THE AFFILIATES ACT IN THAT CAPACITY?**

A. No. Waste Control, Inc. is a standalone corporation and is not beneficially owned by any other of its related companies.

**Q. CAN YOU DESCRIBE CHANGES IN THE COMPANY SINCE YOU AND KEVIN INCORPORATED IT IN APPROXIMATELY 1987/1988 IN TERMS OF REVENUE GENERATION?**

A. Yes. Along with the other companies, we have, on a combined basis expanded and created new revenue streams 16 fold larger than when we formed Waste Control, Inc. and assumed management of Waste Control Recycling, Inc.

**Q. ARE YOU PRESIDENT OF ANY OF THE OTHER ENTITIES?**

A. Yes. I am also president of Waste Control Equipment, Secretary/Treasurer of the other related companies and partner in the Heirborne Investments, LLC entity.

**Q. WHY ARE YOU INTERESTED IN TESTIFYING IN THIS MATTER?**

A. Well, in addition to my role in financial oversight, direction and planning of the Company, I am understandably focused on the accounting issues raised by this filing, and upon which our attempt to resolve the case failed in December.

**Q. CAN YOU CITE THE ISSUES OF GREATEST CONCERN TO YOU AS PRESIDENT OF WASTE CONTROL, INC.?**

A. Yes, while Ms. Davis’ testimony outlines in detail what the Company and its advisors believe to be the bulk of the issues in dispute when the Company and Staff failed to come to an agreement on the overall revenue requirement in December, there are a couple of major issues involving capital structure and operating and rental expenses relevant thereto that I want to address from a Company policy standpoint.

**Q. CAN YOU PLEASE SUMMARIZE YOUR CONCERNS?**

A. Yes, again, while Ms. Davis has detailed the specific and measured impacts of what I would term “hybrid capital structures,” I want the Commission to know why I believe this current treatment is particularly chilling for a regulated solid waste collection company.

**Q. BY “THIS CURRENT TREATMENT” WHAT DO YOU MEAN?**

A. I am referring here to what I understand to be the Staff approach to use the capital structure of a nonregulated affiliate as owner of an asset or property rented or otherwise operated in part by WCI in order to determine how much rent expense from that asset will be allowed in regulated rates.

**Q. IN YOUR TENURE WITH THE COMPANY SINCE 1983 AND YOUR OVERALL FAMILIARITY WITH GENERAL RATE CASE FILINGS OVER THAT PERIOD, HAVE AFFILIATE RENT TRANSACTIONS EVER BEEN SO TREATED?**

A. No.

**q. What has been the treatment generally AFFORDED rented assets of WCI BY THE STAFF?**

a. Well they are analyzed for their reasonableness and then typically fully allowed in rates if determined to be supportable with appropriate offsets or reductions for nonregulated operation usage.

**Q. TO YOUR KNOWLEDGE HAS THE STAFF EVER FACTORED THE DEBT STRUCTURE OF THE NONREGULATED COMPANY OWNER INTO THE COMPUTATION OF A REASONABLE RENTAL EXPENSE ALLOWANCE?**

A. No. The only time in the past any “blending” of affiliate capital structures had been proposed that I am aware of was in the 2009 General Rate Case for WCI where initially the Staff proposed adding together all affiliate capital structures into the final Lurito-Gallagher revenue requirement calculation.

**Q. WHAT HAPPENED IN THAT INSTANCE?**

A. The Company, through its advisers, argued against that effort and, as I understand, raised accounting and legal objections to that proposal after which it was not pursued by Staff in that filing.

**Q. IF FOR INSTANCE, THE COMMISSION WERE TO ENDORSE THE CONCEPT OF CALCULATING ALLOWABLE RENTAL EXPENSES AT LEAST PARTLY ON THE BASIS OF A NONREGULATED AFFILIATE OWNER’S CAPITAL STRUCTURE, WHAT IMPLICATIONS WOULD THIS HAVE FOR WASTE CONTROL, INC.**

A. Well, it would require us to completely reanalyze how we have historically structured our businesses, and as Ms. Davis indicates in her testimony, will likely require the restructure and ownership change of most or all commonly utilized/operated assets and real estate.

**Q. WHAT SPECIFICALLY WOULD YOU FORESEE OCCURRING IN THIS REGARD?**

A. Waste Control, Inc. would likely need to acquire outright the majority of operating assets it needs to use even sporadically, like spare trucks, or instead rent from third-party equipment suppliers.

**Q. WOULD THIS INCREASE WCI’S OPERATING EXPENSES IN YOUR VIEW?**

A. Unquestionably. Clearly having to purchase trucks separately and hold them in reserve is inefficient as is renting trucks on a daily basis from equipment rental dealers.

**Q. WHAT ARE YOUR THOUGHTS AS TO THE LATTER?**

A. Well, I have checked with local area dealers who are quoting rental fees of about $280 per day per truck if available. Obviously, spare front loader garbage trucks are not widely available in the rental market to begin with. Nevertheless, for the three trucks such as we typically rent from our affiliate, that would be approximately $800 per day plus which makes the approximate $15,000 per books, per truck, annual rental fees paid to our affiliate look extremely reasonable. Indeed, the **annual** rental amount for one truck’s current rent is what it might cost the Company to rent from outside parties in two months or less.

**Q. WHAT IS YOUR VIEW OF SUCH AN OUTCOME ON WCI’S OPERATING EFFICIENCIES?**

A. Well, in the case of truck rentals, not only is it more expensive but it is far less convenient and very inefficient. In sharing the use of operating assets owned by nonregulated affiliates, WCI can obviously take advantage of economies of scale it would not otherwise obtain on its own.

**Q. IS THIS EFFECT ALSO TRUE WITH REGARD TO RENTAL REAL PROPERTY?**

A. Yes. There are five related solid waste collection/recycling reclamation and transfer/disposal-related entities operating at our Longview facility. To unilaterally bifurcate and separate assets operated by WCI and effectively require it to own all the plant and equipment utilized in order to be allowed rental expenses seems extremely wasteful and a potential duplication of major resources.

**Q. ARE THERE ANY OTHER PRACTICAL CONCERNS?**

A. Yes. States sales and business and occupation tax and corporate federal income tax implications to name a few, as well as added borrowing costs all of which would likely impact prospective regulated collection rates adversely.

**Q. IN TERMS OF THE LURITO-GALLAGHER METHODOLOGY’S DERIVATION OF AN OVERALL REVENUE REQUIREMENT IN A GENERAL RATE CASE AND BLENDING/USE OF NONREGULATED COMPANIES CAPITAL STRUCTURES, WHAT IS YOUR OPINION?**

A. Well obviously that is a major concern. Our practice and understanding of the Lurito-Gallagher methodology is that in order to calculate a final revenue requirement, only the regulated company’s unique structure is used. If the Staff is presently or prospectively suggesting you can impute a nonregulated sister company’s capital structure into the equation/calculation of a final revenue requirement then we would have to completely re-examine the financial structure of all our companies.

**Q. WOULD THIS BE DIFFICULT AFTER THE FACT?**

A. Absolutely. How would we be able to change the fact today that say, Heirborne Investments in 2006 issued an $11.75 million bond offering pursuant to loans and letters of credit agreements insisted upon by lenders in order to build the new transfer station for Cowlitz County?

**Q. ARE THERE OTHER FINANCING COMPLICATIONS YOU COULD ANTICIPATE?**

A. Yes, and they rather boggle the mind when you isolate a particular piece of property or operating asset, many of which are owned and operated by WCI and are fully depreciated or have no current debt obligation. We would eventually need to consider their likely sale or liquidation in order to accommodate this concept of eliminating stand-alone capital structures for regulated companies operating in relation to nonregulated affiliates.

**Q. HOW DO YOU PUT THE CURRENT DISPUTE IN PERSPECTIVE?**

A. Well for 30 plus years now we have been guided in general terms by the treatment of expenses, revenues, debt, equity, capital structure, and since 1988, as well, by the modified operating ratio ratemaking methodology of the Commission as we understood and applied it. The proposed treatment to date by the Staff in this case of rented plant and equipment and the attempt to impute capital structures of nonregulated affiliates into the final calculation of WCI’s revenue requirement is a huge “sea change” for us and one for which we must now seek Commission review.

**Q. DO YOU HAVE ANY VIEWS ABOUT STAFF MEASURES HERE TO EFFECTIVELY TEST OR EXPLORE ALTERNATIVE TREATMENT OF CAPITAL STRUCTURES AND AFFILIATE RENTAL EXPENSE ALLOWANCES IN YOUR RATE CASE?**

A. Yes. I believe that our general rate case is not the forum to establish “variation” on the current modified operating ratio methodology. There is already a current rulemaking, under Docket No. TG-131255, where we understand the Commission is reviewing that methodology and in my opinion that would be a far more comprehensive and uniform forum to explore or fashion any changes to the Lurito-Gallagher methodology than inside our suspended general rate case.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY TO THIS POINT?**

A. Yes.