

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

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

**PREFILED DIRECT TESTIMONY
OF JOE WILLIS,
WASTE CONTROL, INC.
OF FEBRUARY 18, 2014**

1 **I. IDENTIFICATION OF WITNESS**

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

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

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

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

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

20 A. Yes. Actually one of my first initiatives at the company when I started full time in
21 1983 was to launch computerization of the accounting and bookkeeping records which
22 my father had not focused upon.

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

25 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

1 have substantial responsibility in the operational area including routing decisions, and
2 oversee city contract administration, work with the finance and administration
3 departments of cities and counties and handle governmental relations including
4 presenting on behalf of the company at various city, county and state forums.

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

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

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

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

16 **Q. GETTING BACK TO YOUR BACKGROUND WITH THE COMPANY, CAN**
17 **YOU PLEASE DESCRIBE WHEN STAN'S SANITARY MORPHED INTO**
18 **"WASTE CONTROL, INC."?**

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

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

24 A. Yes. While there is no parent company, there are five other separate sister entities that
25 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?

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

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

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

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

11 A. Yes. Waste Control Recycling, Inc. was actually formed by my father on or around
12 1974, and was a forerunning Washington company dedicated to development of an
13 infant industry at that time, recycling. Because of Longview's long history in the paper
14 mill industry, recycling of paper products particularly was a logical expansion for our
15 solid waste operations and as people in the late 1960s and early 1970s woke up to the
16 environmental benefits of reclaiming and recycling timber-based products, it was a
17 timely business formation.

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

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

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

23 A. We are sister companies, and as attached Exhibit JW-4 seeks to demonstrate, we all
24 interact with each other in some capacity in the solid waste recycling collection
25 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?

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

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

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

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

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

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

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

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

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

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

24 A. Yes, again, while Ms. Davis has detailed the specific and measured impacts of what I
25 would term "hybrid capital structures," I want the Commission to know why I believe

1 this current treatment is particularly chilling for a regulated solid waste collection
2 company.

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

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

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

11 A. No.

12 **Q. WHAT HAS BEEN THE TREATMENT GENERALLY AFFORDED RENTED
13 ASSETS OF WCI BY THE STAFF?**

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

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

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

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

25

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

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

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

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

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

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

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

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

22 A. Well, I have checked with local area dealers who are quoting rental fees of about \$280
23 per day per truck if available. Obviously, spare front loader garbage trucks are not
24 widely available in the rental market to begin with. Nevertheless, for the three trucks
25 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

1 truck's current rent is what it might cost the Company to rent from outside parties in
2 two months or less.

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

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

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

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

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

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

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

24 A. Well obviously that is a major concern. Our practice and understanding of the Lurito-
25 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

1 structure into the equation/calculation of a final revenue requirement then we would
2 have to completely re-examine the financial structure of all our companies.

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

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

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

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

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

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

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

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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.