Waste Control, Inc.

Exhibit JD 7 Real Property Rentals from Affiliates vs Staff Workpaper Approach

Exhibit No. (JD-7)

			11/4/2013	**11/19/2013**	**11/21/2013**	**12/13/2013**
	2009 Rate case	**Our calculation**	**Staff Version 1**	**Staff Version 2**	**Staff Version 3**	**Staff Version 4**
Explanation of methodology:	In the last rate case filed over four years ago, rents were allowed as submitted for the office, parking and wash bays, storage areas and employee parking. The newly constructed covered parking was added for the last three months of the test year at $1500 per month and the painting warehouse was not yet in service. At the bottom of the column we added the effects of these additions. Since that time there has been no increase in monthly rent other than the addition of the painting warehouse.	In an attempt to work with the Staff and their desired calculation of return on net book value based on the Bremerton-Kitsap Airporter formula, we calculated the following rents which allow for a return on investment on net book value, operating costs plus depreciation. We had not previously had to supply a calculation that involved depreciation of rented real property as the allowed rent was based on historical cost plus improvement in prior cases.	Calculated return on assessed value using a 15% allowable rate of return and 5.25% on debt. No depreciation factored into calculations and combined Company equity structure was used.	Modified calculation to include depreciation. Under the methodology the staff was attempting to use, they should have calculated allowable depreciation and a return on the net book value. Instead, the spreadsheet calculated only depreciation and a return on depreciation **expense**, thus no return on net book value was allowed. Staff revised the approach when this anomaly was pointed out.	In this version, previous errors were corrected. Interestingly however, the allowable rent only changed slightly. This was because staff here changed the capital structure from all the companies to only Heirborne at 93% debt. Also, Staff removed some assets that had previously been included. Simply correcting the prior adjustments while resisting any other changes would likely have increased rent to an acceptable level. At this point though the Company was also informed that arguing for more allowable rent would be fruitless.	Staff added the warehouse previously omitted. They then unilaterally lowered the return on equity to 9.8% from 15% where it had been calculated on this case and every prior Company rate case. Staff seemed here to be targeting an allowed rental range by unilaterally changing other variables when the Company supported a challenged adjustment.
Equity percentage		asset specific	22.81%	31.60%	8.27%	8.27%
Return on equity percentage		15%	15.00%	15.00%	15.00%	9.80%
Debt percentage		asset specific	77.19%	68.40%	91.73%	91.73%
Cost of debt		5.25% per WUTC original	5.25%	5.25%	2.18%	2.18%
Depreciation allowed		yes	no	yes	yes	yes
Operating costs allowed		yes	no	yes	no	limited
Assessed values used for return		no	yes	no	no	no
Combined capital structure used		no	yes	yes	HB Cap structure used	HB cap structure used
Property	**Rent**					
1150 3rd Ave (Main office)	$39,600	$13,843	$30,264	$12,953	$1,966	$1,125
950 3rd Avenue (Covered Parking)	4,500 3 mo	21,118	63,843	7,287	12,913	5,599
1150 3rd Ave (Emp parking, wash bay)	48,150	2,688	21,382	4,097	580	503
River Road (Cart & container storage)	in above	30,160	5,137	0	6,514	5,649
Woodland storage	in above	9,519	7,341	3,035	2,056	1,783
Stanley Plaza Painting facility	0 2011	13,903	omitted	omitted		9,420
Allocated costs HB	incl in rents	6,714	omitted	11,724	omitted	5,419
Allocated costs HB II	incl in rents	5,578	omitted	omitted		1,366
HB Depreciation	incl in rents	18,305	omitted	omitted	19,702	12,285
HB II Depreciation	incl in rents	5,769	omitted	omitted		4,412
Total Annual Rent Expense	92,250	127,596	127,967	39,095	43,730	47,560
per Operations	80,250	138,000	138,000	138,000	138,000	138,000
add back newly rented items	31,500					
Adjusted rent as allowed in prior case	123,750					
Excess (Disallowed) Rent	**($12,000) ***	**($10,404)**	**($10,033)**	**($98,905)**	**($94,270)**	**($90,440)**

* Although $12,000 was adjusted in the prior rate case, there was not an explanation and we did not follow up because the full rate increase was granted.

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