

Agenda Date: October 26, 2005
Item Numbers: B2 through B8

Dockets:	Company Name:	Fuel Surcharge:
TG-051586	Bainbridge Disposal, Inc.	0.94%
TG-051587	Bingen Garbage Service (Hearn, William D. dba)	2.79%
TG-051588	Skamania County Sanitary Service, Inc.	2.79%
TG-051589	Methow Valley Sanitation Service, Inc.	1.14%
TG-051592	Mason County Garbage (Mason County Garbage Co., Inc. dba)	0.80%
TG-051593	Island Disposal, Inc.	0.74%
TG-051594	Empire Disposal, Inc.	0.88%

Staff: Gene Eckhardt, Asst. Director of Transportation and Water
Lori Kanz, Regulatory Analyst

Recommendation: Approve the proposed fuel surcharge filings to become effective November 1, 2005, on less than statutory notice.

Although staff and industry representatives have met several times in past years to discuss fuel prices and develop an appropriate fuel surcharge methodology, those efforts did not produce an agreed methodology. The Staff proposed methodology focused on the relationship of fuel expense to total revenue, the amount of increase in fuel prices compared to a base year, and the extent that a calculated increase in fuel expense exceeded one percent of total revenue. Increased fuel prices have increased the ratio of fuel expense to total revenue. This, combined with price increases that have increased more over a shorter period of time than in recent years, allowed some companies to qualify for a fuel surcharge.

Staff proposes a methodology that is similar to the methodology previously proposed to the solid waste industry and to those currently used for the auto transportation, commercial ferry, and household goods industries. However, the new methodology uses information that should be readily available and fuel price indexes that will eliminate the need for record keeping, analysis, and reporting. Whether companies use an electronic spreadsheet (prepared and distributed by Staff) or calculate the fuel surcharge by hand, the proposed methodology will be easier for everyone to use:

First Filing	
Electronic Spreadsheet	5 Data Entries
Hand Calculation	7 Arithmetic Calculations
Updates	
Electronic Spreadsheet	1 Data Entry
Hand Calculation	7 Arithmetic Calculations

The following provides a brief description of Staff's proposed methodology:

- Determine the company's base fuel expense to base revenue ratio.
- Using the Oil Price Information Service (OPIS) index, which staff will make available, calculate the base fuel index and the current fuel index.
- Using the base fuel index and current fuel index numbers, calculate the fuel index percent increase.
- Multiply the base fuel expense as a percentage of revenue by the fuel index percent increase to determine the fuel index increase as a percentage of base revenue.
- Deduct one percent to determine the allowable fuel surcharge as a percent of revenue.

If a company has not had a general rate case with an effective date of January 1, 2005, or later:

- Base Revenue is the revenue for total company operations for calendar year 2004.
- Base Fuel Expense is the fuel expense net of fuel tax credits, discounts, and rebates, etc. for total company operations for calendar year 2004.
- Base Fuel Index is the average fuel index for calendar year 2004.
- Current Fuel Index is the average fuel index for the most recent period equal to the time that the proposed surcharge will remain in effect, but no less than the company's billing period.

If a company has had a general rate case with an effective date of January 1, 2005, or later:

- Base Revenue is the pro forma revenue from the general rate case.
- Base Fuel Expense is the pro forma fuel expense from the general rate case.

- Base Fuel Index is the average index price for the 12-month period used to determine the pro forma fuel expense.
- Current Fuel Index is the average fuel index for the most recent period equal to the time that the proposed surcharge will remain in effect, but no less than the company's billing period.

Companies will:

- Show the fuel surcharge as a separate line item on the customer's bill.
- Notice customers on the bill, or by separate bill insert, that the Commission authorized the temporary fuel surcharge.
- Need to work with staff to ensure billing patterns treat customers equitably.

Solid waste collection companies use the following billing periods:

Billing Period	No. of Months			First Applicable Billing Period for a Nov. 1 Fuel Surcharge Effective Date.
	Arrears	Current	Advance	
Monthly	1			December
Bi-Monthly	2			January
	1	1		December
		1	1	November
Quarterly	2	1		January
	1	1	1	December
		1	2	November

Also, most companies issue bills in a cycle. For example, companies that issue bills quarterly typically bill one-third of their customers each month. This is more efficient because it spreads out both the billing costs and revenues collected. The monthly billing period is straight forward in collecting a fuel surcharge. However, all the other billing cycles bill customers at different times. None of the solid waste collection companies have the ability to automatically issue bills with collections for past months.

Example: A company bills one-third of its customers each month for three months of service: the current month and two months in advance. The proposed surcharge would be measured using the most recent three month period, and the company would recover the amount of the fuel surcharge over a three month period. The Commission approves a fuel surcharge to become effective November 1, 2005, that the company will recover over three months. For customers billed in November (November, December and January service), the application is straight forward. However, two-thirds of the customers have already received bills, and perhaps paid, for service in November. The billing programs that haulers use will not automatically generate line items or charges for service for the one-third of customers that received bills in advance for November service or for the one-third of customers that received bills in advance for November and December service.

Staff recommends that each company be allowed to recover the fuel surcharge using its normal billing cycle such that November is the first month to which the fuel surcharge would apply as follows:

Customers Billed in the month of:	Surcharge Applied to Services for the Months of:
November	November, December, and January
December	December, January, and February
January	January, February, and March

Although this billing application treats customers differently, Staff believes this is a practical and reasonable approach that does not treat customers in a way that is unjustly discriminatory or unduly preferential.

Timing: Some customers pay sooner (November, December, and January) and some pay later (January, February, and March). However, if there is no increase during the five-month period, a one-can customer in each of the billing periods will, after five months (November – March), pay exactly the same. Of course, a new surcharge may go into effect in February, starting the cycle over.

Rate Change: If a rate increase becomes effective during the five month period, some customers would pay slightly more than other customers, the amount of the surcharge multiplied by the difference between the current rate and the increased rate.

Staff circulated its proposed methodology to solid waste collection companies and advised them that Staff would support any filings received using that methodology. We also advised companies that Staff's proposed methodology does not prohibit any company from filing proposed rates using a different methodology and that any company may file written comments or appear at the Commission's Open Meeting to comment, in support or opposition of, Staff's proposed methodology.

Recommendation: Approve the proposed fuel surcharge filings to become effective November 1, 2005, on less than statutory notice.