Agenda Date: January 25, 2024
Item Number: B1

Docket: **TG-231026**
Company Name: Robert J. Pellegrini
d/b/a Upper Okanogan Valley Disposal

Staff: Jeanine Leggett, Regulatory Services
Kris Irelan, Consumer Protection

Recommendation

Issue an order allowing tariff pages filed on December 15, 2023, as revised on January 16, 2024, to become effective February 1, 2024, and requiring the Company to submit a filing no later than August 1, 2025, demonstrating the Company's acquisitions of new assets.

Background

On December 15, 2023, Robert J. Pellegrini, d/b/a Upper Okanagan Valley Disposal (Upper Okanagan or Company), filed tariff revisions with the Washington Utilities and Transportation Commission (Commission). The tariff revisions as filed would have generated approximately $260,000 (12 percent) in additional annual revenue for the collection of residential, commercial, and drop box garbage service. The proposed rate revisions are prompted by increases in labor costs, health and welfare benefits, increased investment, and other operating expenses. Upper Okanagan provides regulated solid waste collection service to approximately 2,800 residential, 740 commercial, and 40 drop box customers in Okanogan County. The Company's last general rate increase became effective January 1, 2011.

Discussion

The Company has been experiencing cash flow issues and does not have the funds to purchase needed trucks to provide reliable service. The last truck was purchased in 2017 and the other 6 trucks are fully depreciated and require ongoing repairs.

As allowed in Policy Statement issued in TG-131255,[1] the Company did not file utilizing the Lurito-Gallagher Model in this General Rate Case. Given the current financial situation of the Company, including but not limited to, cash flow and Net Book Value of assets, the Company is seeking an 90/10 Operating Margin approach to this filing to ensure adequate future capital (asset) investments in the Company.

[1] Docket TG-131255 Policy Statement issued December 3, 2020.
Paragraph 20 "Nothing in this Policy Statement excludes a regulated solid waste collection company from filing with the Commission a rate making model that deviates from the standard Lurito Gallagher model, including the treatment of federal income taxes."

Commission Staff (Staff) conducted a review of the Company's books and records creating its own Lurito-Gallagher Model which resulted in a 97/3 operating ratio and provided $35,000 additional annual revenue. The low calculated return is due to the low netbook value of the Company's assets, most of which are fully depreciated.

The Company provided Staff with a quote for a new truck in the amount of $183,000. This cost does not include the cost of Company required retro fits. It would take a minimum of 5 years to purchase a truck by using the Lurito Gallager methodology calculated by Staff. The average useful life expectancy of Solid Waste vehicles is 5 to 7 years. As costs continue to increase it would be a challenge for the Company to purchase a single truck under this methodology. The Company anticipates needing to replace additional trucks in the near future as the assets continue to age.

The LG methodology is not required in rule or statute and the Commission regulates other transportation companies utilizing an operating ratio of 93/7. In testimony from the rate case that begun use of the LG methodology[2] the Staff explained the LG should not produce operating ratio in excess of 93/7. When Staff applied the 93/7 operating ratio, it generated approximately $129,000 in additional annual revenue. This would not be sufficient to provide funds for the purchase of a new collection truck until approximately 15 months of rates being in effect.

The Company attempted to file a rate case in June 2022 using a test year ending October 2021. That filing was rejected for not complying with the filing requirements of WAC 480-07-520. The current filing has a test year ending July 30, 2023. Staff reviewed the accumulative inflation since July 2023 based on data from the U.S. Bureau of Statistics and found that costs had increased by approximately 10 percent for the time period.

Staff and the Company agreed to settle the case by using 91.5/8.5 operating ratio which will provide approximately $167,000 (7.7 percent) in additional annual revenue, this should enable the Company to begin investing in new equipment. Staff recommends the Company be required to submit a filing within 18 months demonstrating the Company acquisition of new equipment.

Staff and the Company agreed to revised rates and the Company file replacement pages at the agreed upon rates.

<u>Customer Comments</u>

On November 16, 2023, the Company notified its customers of the proposed rate increase by mail. As of the date of this memo, the consumer protection department has not received any comments.

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[2] Docket TG-2017 et al.

Rate Comparison

Residential Monthly Rates	**Current Rate**	**Proposed Rate**	**Revised Rate**	**Percent Increase**
32-Gallon Can Weekly Pick-up	$16.57	$18.57	$17.89	2.96%
Two 32-Gallon Can Weekly Pick-up	$22.60	$25.32	$24.40	5.51%
Commercial Per Pick-up Rates				
1-Yard Container, Per Pick-up	$15.51	$17.57	$20.50	3.17%
2-Yard Container, Per Pick-up	$18.73	$21.21	$32.24	6.03%
Drop Box				
Drop Box Rent	$105.00	$117.66	$113.31	7.91%

Conclusion

Commission Staff has completed its review of the Company's supporting financial documents, books, and records. Staff review shows that the expenses are reasonable and required as part of the Company's operation. The Company's financial information supports the revised revenue requirement, and the revised proposed rates and charges are fair, just, reasonable, and sufficient. Therefore, Staff recommends the following:

Issue an order allowing tariff pages filed on December 15, 2023, as revised on January 16, 2024, to become effective February 1, 2024, and requiring the Company to submit a filing no later than August 1, 2025, demonstrating the Company's acquisitions of new assets.