

Agenda Date: December 27, 2012
Item Numbers: B5, B6 and B7

Dockets: **TG-121817, 121818 and 121819**
Company Name: Waste Management of Washington, Inc., G-237
dba Waste Management South Sound, Waste Management of Seattle
dba Waste Management – Sno-King
dba Waste Management – Northwest

Staff: David Gomez, Assistant Power Supply Manager, Energy Regulation

Recommendation

In Dockets TG-121817, Waste Management of Washington, Inc., dba Waste Management South Sound, Waste Management of Seattle (South Sound), and TG-121818, Waste Management of Washington, Inc., dba Waste Management – Sno-King (Sno-King), issue an order to:

1. On the commission's own motion, grant exemptions from WAC 480-07-520, work paper filing requirements, and take no action on the tariffs implementing the disposal fee increase, allowing them to become effective on January 1, 2013, by operation of law.
2. Take no action on the tariff revisions implementing the recyclable commodity revenue adjustments, and allow them to become effective January 1, 2013, by operation of law.
3. Authorize the company to retain up to 38 percent of the revenue it receives from the sale of recyclable materials collected in South Sound's and Sno-King's residential recycling programs and require the company to meet the performance requirements set forth in its recycling and revenue sharing plan.

In Docket TG-121819, Waste Management of Washington, Inc., dba Waste Management – Northwest's (Northwest), issue an order to:

1. Take no action on the tariff revisions implementing the recyclable commodity revenue adjustments, and allow them to become effective January 1, 2013, by operation of law.
2. Authorize the company to retain up to 38 percent of the revenue it receives from the sale of recyclable materials collected in Northwest's residential recycling program and require the company to meet the performance requirements set forth in its recycling and revenue sharing plan.

Discussion

On November 15, 2012, Waste Management of Washington, Inc. (Waste Management or company) filed tariff revisions for the three referenced operating business units. The tariff revisions filed for South Sound and Sno-King update the monthly recyclable commodity revenue adjustments and increase rates due to a disposal fee increase. For Northwest, the tariff revisions only update the monthly recyclable commodity revenue adjustment.

Increased Collection Rates for Residential and Commercial Garbage

The increased rates were filed to recover the costs of increased disposal fees set by King County, and would generate approximately \$427,000 (4.6 percent) additional annual revenue for South Sound, and approximately \$397,000 (4.6 percent) additional annual revenue for Sno-King.

A disposal fee increase falls within the definition of a general rate increase pursuant to WAC 480-07-505. WAC 480-07-520 lists the minimum required information companies must provide in a general rate increase filing. The company provided information pertinent to the disposal fee but did not provide the remainder of the information required by the rule and did not request an exemption from the work paper filing requirements of WAC 480-07-520.

WAC 480-07-110 allows the commission to grant an exemption from or modify the application of its rules if consistent with the public interest, the purposes underlying regulation, and applicable statutes. See also WAC 480-70-051.

WAC 480-07-370(1)(b)(i) states, in part, that the commission may undertake an action that would be the proper subject of a party's petition, such as authorizing exemption from a commission rule, without receiving a petition from a party.

Staff reviewed the proposed tariff revisions together with other factors and recommends the commission allow the proposed tariffs to become effective by operation of law, and, on its own motion, grant the company exemptions from WAC 480-07-520, work paper filing requirements for these filings for the following reasons:

- (a) There have not been any significant changes since the last rate cases became effective. Reviewing the rate case documents, customer numbers are relatively unchanged, inflation has been low, and the company has not changed its collection methods.
- (b) The increased disposal fees are set by King County and are required as a part of the company's operations.
- (c) The company's financial information supports the proposed revenue requirement and the proposed rates.
- (d) Staff concluded the proposed rate increase, by reason of the increase in disposal fees, is fair, just, and reasonable.

Recyclable Commodity Revenue Adjustments

South Sound proposes to decrease the monthly credit for single-family customers from \$3.41 to \$2.29, resulting in an increased charge of \$1.12 per customer per month, and to decrease the monthly credit for multi-family customers from \$0.75 to \$0.38 per yard, resulting in an increased charge of \$0.37 per yard per customer per month.

Sno-King proposes to decrease the monthly credit for single-family customers from \$4.90 to \$1.61, resulting in an increased charge of \$3.29 per customer per month, and to decrease the monthly credit for multi-family customers from \$0.75 to \$0.41 per yard, resulting in an increased charge of \$0.34 per yard per customer per month.

Northwest proposes to decrease the monthly credit for single-family customers from \$4.26 to \$1.47, resulting in an increased charge of \$2.79 per customer per month, and to decrease the monthly credit for multi-family customers from \$0.91 to \$0.31 per yard, resulting in an increased charge of \$0.60 per yard per customer per month.

The recyclable commodity revenue adjustments reflect the revenue the company receives from the sale of recyclable materials collected from residential customers and is adjusted annually pursuant to a deferred accounting mechanism. Staff has reviewed the proposed changes and recommends the commission take no action on the tariff revisions implementing the recyclable commodity revenue adjustments, and allow them to become effective January 1, 2013, by operation of law.

2011-2012 Recycling and Commodity Revenue Sharing Plan

In Order 05 and Order 06 in Dockets TG-111813, TG-111814, and TG-111815 (consolidated), the commission authorized the company to extend the revenue sharing agreements by four months, through December 31, 2012. On November 15, 2012, the company also filed its report of the activities and results for 2011-2012 plan year revenue sharing plans. Staff was surprised that the company reported \$500,000 in expenditures for four separate tasks during the four month extension period. The company's response to staff's data requests regarding these expenditures discloses the following detail of the scope of work and deliverables for each task.

Extension Task 4-I: Target Increased Recycling in Diverse Communities - \$150,000

In response to focus group findings from Task 4-III, Waste Management is working with a consultant to plan and implement the preliminary stages of a behavior study in an effort to better understand residents' behaviors and motivations around recycling. Waste Management will also develop a Spanish-language recycling campaign aimed at increasing recycling participation in multilingual areas.

Extension Task 4-VI: Targeted Commodities - \$100,000

Waste Management will conduct a mixed media marketing campaign designed to increase paper recycling. This campaign employs a combination of print, online media, and direct mail to include the following: a how-to video on paper recycling and an earned media holiday story for a paper recycling pledge. Waste Management will also create and execute an online paid media campaign about metal recycling.

Extension Task 4-VII: Elementary Recycling Educational Presentations and Outreach - \$150,000 (Snohomish County only)

Waste Management will implement an elementary school curriculum designed in partnership with early education and multicultural outreach consultants to encourage youth to seek opportunities for increased recycling and food scrap collection at their schools and homes. The program consists of assemblies, classroom workshops, technical assistance and action projects, materials and coordination, evaluation and reporting. This task also includes a short promotional video component and an earned media outreach in Snohomish County in regards to the new elementary school curriculum.

Extension Task 7: On-going Education and Outreach Assistance - \$100,000

Conduct an outreach campaign in partnership with BigBelly Solar to encourage residents to think about “away from home” recycling in public spaces and places of business. Contamination is typically high when recycling containers are placed in public spaces; therefore, successful research and piloting public space recycling will be used to implement recycling in public spaces across UTC areas.

The company stated that all of these additional tasks undertaken during the extension period represent contractual obligations with providers that will be invoiced and paid by the company early in 2013. The company also stated that the extension period tasks are different and distinct from those in the 2013 revenue sharing plan.

2013 Recycling and Commodity Revenue Sharing Plan

On November 15, 2012, the company also filed its 2013 Recycling and Commodity Revenue Sharing plans for both Snohomish and King Counties. The detailed budget is provided in Attachment A. The total budgeted expenditures for both county plans, including incentives total \$1,848,000. Last year’s actual plan year expenditures were \$1,955,741.¹

For the 2013 plan year, the specific tasks and budgets for both counties are:

- Task 1: Quarterly Updates and Coordination Meetings – Waste Management will meet with the county once each quarter to review progress, lessons learned and budgeted versus actual expenditures. Budgeted expense for this task is \$0.
- Task 2: Monthly Data Reporting Requirements – The company will provide monthly recycling and disposal reports for the county. Budgeted expense for this task is \$0.
- Task 3: Contamination Monitoring and Characterization of Recycling – Sampling by Cascadia Consulting Group of multi-family recycling to gain a better understanding of the composition of materials set out for recycling, quantify contamination levels and identify target materials for future campaigns and outreach. Budgeted expense for this task is \$34,500.
- Task 4: Behavior Study and Strategic Planning – Waste Management will conduct a comprehensive behavior study in King and Snohomish Counties to identify target audiences, attitudes and behaviors around recycling as well as gather information on which tactics are most effective in educating and motivating residents to recycle. Budgeted expense for this task is \$225,000.
- Task 5: Promotion of Multi-Family Recycling – Develop new and “out of the box” outreach strategies to pilot programs targeting multi-family properties. Budgeted expense for this task is \$125,000.
- Task 6: Organics – The company will convene a meeting of compost service vendors, company staff and county personnel to discuss actions to minimize odors and contamination of organics delivered to compost service vendors. Budgeted expense for this task is \$309,500.

¹ Based on a retention percentage of 30 percent.

- Task 7: Promotion of Recycling at Key Events – Outreach and education at major community events, farmer’s markets, fairs and festivals to promote and encourage recycling. Budgeted expense for this task is \$100,000.
- Task 8: Increased Recycling and Decrease Contamination – Development of a Recycling Guide that highlights current recycling and composting program information and provides guidance for households on how to recycle. Budgeted expense for this task is \$445,000.
- Task 9: Harmonization of Curbside Recycling Programs – Engage in discussions with the counties on how to standardize collected recyclable materials between jurisdictions. Budgeted expense for this task is \$5,000.
- Task 10: Promote, Sustain and Improve Away from Home Recycling – Deployment of 18 sets of “Big-Belly” recycling and garbage containers at key shopping destinations in both King and Snohomish Counties. Budgeted expense for this task is \$21,000.
- Task 11: Schools Program (Snohomish County Only) – Contract with early education and outreach experts to design elementary school and classroom workshops to encourage youth to recycle at school and at home. Budgeted expense for this task is \$200,000.

In addition to a labor cost allocation of \$39,770, the plan includes a provision for an incentive award of five percent of expenditures, currently estimated at \$11,808. To be eligible to receive a three percent incentive, the company would have to demonstrate to the county that it increased diversion of materials from disposal by regulated single-family and multi-family residential customers as determined by the criteria specified in the plan. The remaining two percent would be awarded for increasing voluntary subscriptions for organics collection services also as determined by the criteria specified in the plan.

Request to Retain Up To 38 Percent

Also on November 15, 2012, Waste Management asked the commission to authorize it to retain 38 percent of the revenue generated from the sale of recyclable commodities from January 1, 2013, to December 31, 2013 (plan year).

RCW 81.77.185 states that the commission shall allow solid waste collection companies collecting recyclable materials to retain up to fifty percent of the revenue paid to the companies for the material if the companies submit a plan to the commission that is certified by the appropriate local government authority as being consistent with the local government solid waste plan and that demonstrates how the revenues will be used to increase recycling. The remaining revenue shall be passed to residential customers.

On November 15, 2012, Kevin Kiernan, King County's Solid Waste Division Director and the appropriate local government authority as specified in RCW 81.77.185 (1), certified that the plan is consistent with the County Solid Waste Management Plan, and that the plan demonstrates how retained revenues will be used to increase recycling.

Staff recommends that the commission authorize the company to retain up to 38 percent of the revenue it receives from the sale of recyclable materials collected in South Sound’s, Sno-King’s, and Northwest’s residential recycling programs, require the company to meet the performance requirements set forth in its recycling and revenue sharing plan, and in consultation with the

Dockets TG-121817, TG-121818 and TG-121819

December 27, 2012

Page 6

county, consider whether to reduce the revenue share the company retained if the company fails to meet those performance requirements.

Conclusion

Staff is still struggling to understand the connection between the levels of expenditure compared to the result achieved. The 2011-2012 plan year accounted for expenditures of almost \$2 million, which resulted in only a 0.6 percent increase in diversion for both King and Snohomish County. Although the company states that the 2013 plan year expenditures and tasks are distinct and different from the tasks identified in the 2011-2012 plan, that is not clear based on staff's reading of the task descriptions for the 2013 plan. While the level of expenditures compared to the increase in diversion has given staff concern, staff believes that the company has met the requirements of the program, which has been approved by King County. Therefore, staff makes the following recommendations to the commission:

In Dockets TG-121817, Waste Management of Washington, Inc., dba Waste Management South Sound, Waste Management of Seattle (South Sound), and TG-121818, Waste Management of Washington, Inc., dba Waste Management – Sno-King (Sno-King), issue an order to:

1. On the commission's own motion, grant exemptions from WAC 480-07-520, work paper filing requirements, and take no action on the tariffs implementing the disposal fee increase, allowing them to become effective on January 1, 2013, by operation of law.
2. Take no action on the tariff revisions implementing the recyclable commodity revenue adjustments, and allow them to become effective January 1, 2013, by operation of law
3. Authorize the company to retain up to 38 percent of the revenue it receives from the sale of recyclable materials collected in South Sound's and Sno-King's residential recycling programs and require the company to meet the performance requirements set forth in its recycling and revenue sharing plan.

In Docket TG-121819, Waste Management of Washington, Inc., dba Waste Management – Northwest's (Northwest), issue an order to:

1. Take no action on the tariff revisions implementing the recyclable commodity revenue adjustments, and allow them to become effective January 1, 2013, by operation of law
2. Authorize the company to retain up to 38 percent of the revenue it receives from the sale of recyclable materials collected in Northwest's residential recycling program and require the company to meet the performance requirements set forth in its recycling and revenue sharing plan.

ATTACHMENT A

King and Snohomish County Revenue Sharing Plan Budget

2013 plan year - (January, 2013 - December, 2013)

Attachment C

	King County Cost	Snohomish County Cost	Total
Customer Counts:			
Residential	37,077	85,282	122,359
	30.1%	69.2%	100.0%
Tonnage:			
Residential and Multi-Family WUTC tonnage	14,790	30,324	45,114
	32.8%	67.2%	100.0%
Total Recycling Tonnage processed by CRC	62,652	40,017	119,493
	52.4%	33.5%	85.9%
% of Tonnage processed at CRC that is from WUTC customers	23.6%	75.6%	32.6%
Revenues:			
Total Projected Commodity Revenue (based most recent 12 months average commodity values)	\$ 1,592,000	\$ 3,272,000	\$ 4,864,000
Estimated Revenue Sharing retained by Company	38%	\$ 605,000	\$ 1,243,000
		\$ 1,848,000	
Expenditures:			
Allocated Labor Costs (see detail below)			
Labor Cost Total (see detail below)	\$ 97,000	\$ 198,000	\$ 295,000
Tasks As Outlined in RSA			
Task 1 - Monthly Data Reporting	\$ -	\$ -	\$ -
Task 2 - Contamination Monitoring & Quarterly Data Reporting	20,000	14,500	34,500
Task 3 - Quarterly Updates and Coordination Meetings	-	-	-
Task 4 - Behavior Study and Strategic Planning	83,000	142,000	225,000
Task 5 - Promotion of Multifamily Recycling	50,000	74,000	124,000
Task 6 - Organics	116,000	193,500	309,500
Task 7 - Promotion of Recycling at Key Events	42,000	58,000	100,000
Task 8 - Increase Recycling and Decrease Contamination	156,000	289,000	445,000
Task 9 - Harmonization of Curbside Recycling Programs	2,000	3,000	5,000
Task 10 - Promote, Sustain and Improve Away from Home Recycling	10,000	11,000	21,000
Task 11 - Schools program (Snohomish only)	-	200,000	200,000
Total RSA Task Fees (excluding capital)	\$ 479,000	\$ 986,000	\$ 1,465,000
Total Budgeted Expenses	\$ 576,000	\$ 1,184,000	\$ 1,760,000
Performance Incentive (5% of expenditures)	\$ 29,000	\$ 59,000	\$ 88,000
Total Expenditures plus Incentive	\$ 605,000	\$ 1,243,000	\$ 1,848,000
% allocated to each County	32.7%	67.3%	100.0%
Avg. lbs./customer/mo.	56.89	59.26	61.45
Avg. revenue/ton	\$ 107.64	\$ 107.90	

Labor Cost Allocation:	Annual Hours	Cost/Hr.	Cost
Labor Associated with monthly reporting requirements	780	\$ 60.00	\$ 47,000
Labor costs associated with contract management/implementation	1,400	\$ 120.00	\$ 168,000
Labor costs associated with management of website and public education development	360	\$ 120.00	\$ 43,000
Labor Associated with staffing public events	264	\$ 90.00	\$ 24,000
Interim staffing	500	\$ 25.00	\$ 13,000
Labor Cost Totals	3,304		\$ 295,000