

Agenda Date: February 22, 2024
Item Number: B1

Docket: TG-230969
Company: Stericycle of Washington, Inc. d/b/a Stericycle

Staff: Ben Sharbono, Regulatory Services
Kris Iris, Consumer Protection

Recommendation

Issue an Order suspending tariff revisions filed by Stericycle of Washington, Inc. d/b/a Stericycle on November 17, 2023.

Background

On November 17, 2023, Stericycle of Washington, Inc. d/b/a Stericycle (Stericycle or Company) filed with the Washington Utilities and Transportation Commission (Commission) tariff revisions that would generate approximately \$2.9 million (25 percent) additional annual revenue. Stericycle provides regulated medical waste collection service to approximately 11,000 commercial customers in Washington State. This is the Company's first general rate increase since its initial tariff took effect December 1, 2001.

Stericycle filed the request due to rising operational costs, including labor, materials, equipment, transportation, and disposal expenses. The Company is also seeking to streamline its service offerings to three container sizes.

Discussion

Commission staff (Staff) has completed its review of Stericycle's books and supporting documents. Staff removed unallowable expenses, made adjustments to depreciation, adjusted investment to end of period as required by WAC. Staff updated fuel expenses, and removed out-of-state revenues and expenses that were included in Stericycle's Washington operations.

In reviewing the Company's documents, Staff noted Stericycle used revenue to allocate its expenses between regulated and non-regulated operations. Through discussions with the Company, Staff learned Stericycle's accounting system does not have regulated and non-regulated operations separated, making it difficult to identify directly attributable expenses. Staff discussed with the Company other possible allocation methods using activities such as driver hours and regulated vs nonregulated driver time spent or vehicles miles, in addition to clearly tracking regulated vs. nonregulated activities. Stericycle has not tracked activity information that would allow more accurate allocation of expenses.

Staff is concerned that using revenue as an allocation methodology can result in subsidization of regulated or non-regulated operations through misalignment of expenses. Using revenue as an allocator relies on a Company's operations having similar expenses to generate similar revenues.

Businesses service offerings, such as Stericycle offering regulated medical waste collection, non-regulated medical waste disposal, and compliance services, will generally have different expense to revenue ratios. Those services that generate greater revenues are then allocated more expenses, applying more expenses to the service even though the actual cost of providing the services remains the same.

Furthermore, revenue allocation also has a cyclic component for companies setting rates using an operating ratio, such as the transportation companies regulated by the Commission. Using the operating ratio, a company's revenue is based on the operating expenses of the company. However, when using revenue allocation, as revenues increase, the allocation of expenses further increases, resulting in more revenue being allocated to the operation, causing a repeating cycle.

Because Stericycle has not filed a general rate increase in over 20 years of operation and it does not have information that would better allocate expenses, Staff believes that allowing a one-time use of revenue allocation will allow the Company to establish reasonably accurate rates. Customers are further protected from Stericycle requesting unreasonable, unjust, and unfair rates due to competition. Stericycle is one of the two state-wide certificated medical waste companies providing services across Washington State, in addition to regulated local medical waste companies in some certificated areas.

The Company is also reducing the sizes of containers offered from 10 to 3. Over the last two decades, the Company added several container sizes to its tariff. Stericycle purchases containers in bulk, which are dispersed to customers. By reducing the selection of sizes, the Company aims to reduce costs while maintaining similar service levels.

Current Offerings:	Replaced By:
<u>10 gallons</u>	
<u>15 gallons</u>	
<u>17 gallons</u>	17 gallons
<u>20 gallons</u>	
<u>21 gallons</u>	
<u>28 gallons</u>	
<u>31 gallons</u>	31 gallons
<u>33 gallons</u>	
<u>40 gallons</u>	
<u>43 gallons</u>	43 gallons
<u>48 gallons</u>	

The Company stated during conversations they are working with current customers to move toward the revised sizes. The Company will stop delivering and collecting containers from customers that are not the specified sizes after one year.

Customer Comments

On November 20, 2023, the Company notified its customers by U.S. mail of the proposed rate increase. Staff received five consumer comments, all opposing the proposed increase. Customers expressed concern with the \$79.99 increase, indicating the increase would negatively impact small businesses; especially when the quantity of the waste being removed is small. Customers also questioned the proposed \$10.36 “on call” fee when businesses would already be paying the \$79.99.

Customers also commented on poor customer service, missed pick-ups and difficulty communicating with the Company. Staff referred commenters to the Consumer Protection Complaint Team to receive assistance with their concerns.

Conclusion

Staff has completed its review of the Company’s financial documents and found the Company’s initial request is justified. Staff and the Company remain in discussions to ensure the Company’s rates are fair, just, and reasonable. Staff recommends the Commission issue an order suspending the rates until Staff and the Company have resolved these issues in the informal process, or reach an impasse.

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