

Agenda Date: June 28, 2012
Item Number: B3
Docket: TG-120699
Company Name: Harold LeMay Enterprises, Inc., G-98, d/b/a Pierce County Refuse

Staff: Dave Gomez, Deputy Assistant Director

Recommendation

Staff recommends the commission allow the tariff revisions filed by Harold LeMay Enterprises, Inc., d/b/a Pierce County Refuse on May 5, 2012, to become effective on July 1, 2012, by operation of law, and, on its own motion, grant an exemption from WAC 480-07-520, work paper filing requirements for a general rate increase.

Discussion

On May 15, 2012, (LeMay or company), filed with the Washington Utilities and Transportation Commission (commission) revisions to its currently effective Tariff No. 9 (Revised Page No.'s 1, 24, 25 and 32, and New Page No.'s 24-A, 24-B and 24-C) to increase rates for solid waste collection on Joint Base Lewis-McChord's (JBLM) Base Housing. LeMay's customer is the housing contractor; Equity Residential Management, LLC and Lewis McChord Communities, LLC (Fort Lewis Communities). The company's annual revenues are expected to increase by \$670,973 (2.56 percent). JBLM has approximately 4,000 single-family and fifty multi-family residences. LeMay serves approximately 112,500 residential and commercial customers throughout Pierce County (county).

The company's last rate increase for JBLM became effective on November 11, 2007, and was based on a disposal fee of \$33.00 per ton. JBLM's disposal fee is lower than it is for county residents and reflects the exclusion of JBLM from the County's Solid Waste Management System and its system fees and service charges. County residents currently pay rates based on a disposal fee of \$130.35 per ton. The company's proposed rates for Fort Lewis Communities are computed using a disposal fee of \$90.60 per ton.¹ A disposal fee increase falls within the definition of a general rate increase pursuant to WAC 480-07-505.

The company's revised tariff also includes expanded service options for JBLM as specified by the customer, Fort Lewis Communities. JBLM single-family residents can choose between a 65 and 95 gallon container for their curbside garbage collection and will be provided with curbside recycling collection services. In addition, voluntary yard waste collection will be offered. Multi-family dwellings can also choose from a wider range of container size options and will also have their recycling collected.

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\$130.35	County Per Ton Disposal Fee
- \$29.00	County Yard Waste Program (Diversions)
- \$0.84	Solid Waste Reduction and Support Program
- \$9.91	County Administrative Fee
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\$90.60	JBLM Disposal Fee

The proposed rates for garbage collection on JBLM are the same as the company's current rates for county customers, less the difference in disposal fee. Recycling and yard waste collection charges are identical to those for county customers. To encourage recycling on JBLM, a recyclable commodity revenue adjustment in the form of a credit is also proposed. Fort Lewis Communities will receive a credit of \$1.66 per month for each single-family and multi-family dwelling unit. The company will use a deferred accounting mechanism to annually update the adjustment for projected commodity prices and include a true-up to correct any over or under payment from the previous period's commodity price forecasts. The recyclable commodity revenue adjustment reflects one-hundred percent of the value of recyclable materials returned to Fort Lewis Communities and is not part of the county's revenue sharing plans.

On June 4, 2011, the commission received a letter from P. Stephen DiJulio, an attorney representing Fort Lewis Communities, protesting and opposing the revised tariff and asking the commission to suspend the proposed rates for JBLM. Fort Lewis Communities' basis for its protest and opposition to the company's proposed rates are as follows:

- a) JBLM is a separate government entity from the county and, as such, disposal fees set by the county have no bearing on what should be paid by Fort Lewis Communities;
- b) Pierce County Recycling, Composting, & Disposal LLC, d/b/a LRI (LRI), an affiliate of LeMay, is the owner and operator of the landfill where JBLM garbage is disposed. The disposal rate charged by the affiliate needs to be investigated by the commission to determine if the disposal rate charged to Fort Lewis Communities is fair, just, reasonable and sufficient; and
- c) The rates charged to Fort Lewis Communities by LeMay are higher than rates charged outside the JBLM facility. In its letter to the commission, Fort Lewis Communities offers two reasons as to why the rates charged to them should be lower. They are:
 - a. Substantially lower credit loss (provision for bad debts); and
 - b. The economies of servicing the compact and dense housing on JBLM versus the outside community.

Table 1 below illustrates the impact of increased rates on a per household basis. Fort Lewis Communities pays LeMay a monthly amount based on the number of units served and these rates. The table also illustrates an opportunity for Fort Lewis Communities to save money by increasing recycling and moving to smaller container sizes. Staff estimates that by simply moving families from larger 65 and 95 gallon containers for garbage to 35 gallon sizes, about \$475,000 of the projected \$670,973 annual increase could be avoided. Even more money could be saved if residents could be convinced to switch to every other week garbage collection versus the current weekly collection.

Table 1; LeMay Monthly Residential Rates (all garbage collection rates shown are for weekly collection)

	Single Family	Yard Waste	Recycling	Recyclable Revenue Adjustment	Comment
Current Monthly Rate	\$16.97	\$14.58	Not offered	None	Yard Waste offered at McChord only
JBLM Proposed - TG-120699	Single Family	Yard Waste	Recycling	Recyclable Revenue Adjustment	Total Monthly Bill
65 gallon cart	\$20.37	\$5.53	\$6.01	\$(1.66)	\$30.25
95 gallon cart	\$26.39	\$5.53	\$6.01	\$(1.66)	\$36.27
Option of Smaller Garbage Containers	Single Family	Yard Waste	Recycling	Recyclable Revenue Adjustment	Total Monthly Bill
20 gallon cart	\$11.17	\$5.53	\$6.01	\$(1.66)	\$21.05
35 gallon can	\$14.36	\$5.53	\$6.01	\$(1.66)	\$24.24
Off Base (Pierce County Refuse Customers)	Single Family	Yard Waste	Recycling	Recyclable Revenue Adjustment	Total Monthly Bill
20 gallon cart	\$12.72	\$5.53	\$6.01	\$(1.75)	\$22.51
35 gallon can	\$16.95	\$5.53	\$6.01	\$(1.75)	\$26.74
65 gallon cart	\$23.69	\$5.53	\$6.01	\$(1.75)	\$33.48
95 gallon cart	\$31.04	\$5.53	\$6.01	\$(1.75)	\$40.83

Staff also investigated the claims made by Fort Lewis Communities which are the basis of their protest and opposition to this filing. Staff responses are shown below:

- a) **Fort Lewis Communities' Comment** - JBLM is a separate government entity from the county and, as such, disposal fees set by the county have no bearing on what should be paid by Fort Lewis Communities.

Staff Response – Staff concurs with Fort Lewis Communities comment above and so does the company. LeMay’s disposal fee for JBLM is \$39.75 (30 percent) less than what county residents pay for disposal. With the removal of county fees and charges, the remaining amount represents the per ton costs associated with the county-wide solid waste disposal system, which includes transfer stations, a local landfill and long-haul transport to both the Roosevelt Landfill in Klickitat County, Washington and the Finley Buttes Landfill in Boardman, Oregon.

- b) **Fort Lewis Communities' Comment** - Pierce County Recycling, Composting, & Disposal LLC, d/b/a LRI (an affiliate of LeMay), is the owner and operator of the landfill where JBLM garbage is disposed of. The disposal fee charged by the affiliate needs to be investigated by the commission to determine if the rate being charged to Fort Lewis Communities is fair, just, reasonable and sufficient.

Staff Response – Although the commission has jurisdiction to review affiliate interest transactions, in this case, the county sets the amount of the disposal fee.² In LeMay’s last

² [Pierce County Resolution No. R2008-117](#), Resolution of the Pierce County Council Authorizing and Endorsing the Execution of an Agreement between Pierce County and Pierce County Recycling, Composting and Disposal, LLC (PCRCD), Doing Business as LRI, for Purposes of Solid Waste Handling and Disposal through 2036, as Recommended to the Council by the County Executive.

rate case, affiliate interest transactions, except the disposal fee, and cost allocations were examined by staff and rates approved by the commission that were fair, just reasonable and sufficient. These rates were used to calculate the amount for solid waste, recycling and yard waste collection on JBLM.

- c) **Fort Lewis Communities' Comment** - The rates charged to Fort Lewis Communities by LeMay are higher than rates charged outside the JBLM facility. In its letter to the commission, Fort Lewis Communities offers two reasons as to why the rates charged to them should be lower. They are:
- a. Substantially lower credit loss (provision for bad debts); and
 - b. The economies of servicing the compact and dense housing on JBLM versus the outside community.

Staff Response – Table 1 shows that rates charged to Fort Lewis Communities are lower than the rates the company charges to its other customers. In fact, JBLM is receiving the benefit of economies associated with LeMay's large customer base. The Commission sets rates using average costs and sets uniform rates throughout a company's operating territory. The Commission rarely sets rates that reflect different cost structures, such as urban (low cost) and rural (high cost).

Commission staff reviewed the tariff request together with other factors and recommends the commission allow the tariff to become effective by operation of law, and on its own motion, grant an exemption from the rule for this filing for the following reason(s):

- a) There have not been any significant changes since the last rate case that became effective March 1, 2012.
- b) The increased disposal fees are set by the county and are required as a part of the company's operations.
- c) The company's financial information supports the proposed rates.
- d) Staff concluded the proposed rate increase, by reason of the increase in disposal fees, is fair, just, and reasonable.
- e) Staff reviewed the basis for the customer's protest and opposition and finds no reason to recommend the commission take action to suspend the proposed rates in this filing.

Conclusion

Staff recommends the commission allow the tariff revisions filed by Harold LeMay Enterprises, Inc., d/b/a Pierce County Refuse on May 5, 2012, to become effective on July 1, 2012, by operation of law, and, on its own motion, grant an exemption from WAC 480-07-520, work paper filing requirements for a general rate increase.