

Agenda Date: December 23, 2009
Item Numbers: B1 through B10

<u>Docket</u>	<u>Company</u>	<u>Permit</u>
TG-091728	Murrey's Disposal Company, Inc., d/b/a Olympic Disposal (Olympic)	G-9
TG-091729	Island Disposal, Inc. (Island)	G-154
TG-091745	Excess Disposal, Inc., d/b/a Excess Disposal Service (Excess Disposal)	G-107
TG-091761	Basin Disposal of Yakima, LLC (Basin of Yakima)	G-45
TG-091764	Basin Disposal of Washington, LLC, d/b/a Basin Disposal of Walla Walla (Basin of Walla Walla)	G-165
TG-091769	Harold LeMay Enterprises, Inc., d/b/a Joe's Refuse Service (Joe's)	G-98
TG-091774	Harold LeMay Enterprises, Inc., d/b/a Rural Garbage Service (Rural)	G-98
TG-091775	Yakima Waste Systems, Inc. (Yakima Waste)	G-89
TG-091777	Waste Management of Washington, Inc., d/b/a Waste Management of Skagit County (Skagit)	G-237
TG-091780	Harold LeMay Enterprises, Inc., d/b/a Pacific Disposal and Butlers Cove Refuse Service (Pacific)	G-98

Staff: Gene Eckhardt, Assistant Director Solid Waste, Water & Transportation
Layne Demas, Regulatory Analyst
Nicki Johnson, Regulatory Analyst
Chris Mickelson, Regulatory Analyst
Nancy Paulson, Consumer Protection Staff

Recommendation

1. Issue an Order granting an exemption from WAC 480-07-520 and allowing the proposed tariffs to become effective by operation of law on January 1, 2010, for tariffs filed by:
 - Murrey's Disposal Company, Inc., d/b/a Olympic Disposal, on November 5, 2009
 - Island Disposal, Inc., on November 6, 2009
 - Excess Disposal, Inc., d/b/a Excess Disposal Service, on November 9, 2009
 - Waste Management of Washington, Inc., d/b/a Waste Management of Skagit County, on November 12, 2009
 - Harold LeMay Enterprises, Inc., d/b/a Pacific Disposal and Butlers Cove Refuse Service, on November 12, 2009

2. Issue a Complaint and Order suspending the tariffs, allowing rates to become effective January 1, 2010, on a temporary basis, subject to refund, and requiring the companies comply with the requirements of WAC 480-07-520 by March 1, 2010, for tariffs filed by:
- Basin Disposal of Yakima, LLC, on November 9, 2009
 - Basin Disposal of Washington, LLC d/b/a Basin Disposal of Walla Walla, on November 10, 2009
 - Harold LeMay Enterprises, Inc., d/b/a Joe's Refuse Service, on November 10, 2009
 - Harold LeMay Enterprises, Inc., d/b/a Rural Garbage Service, on November 12, 2009
 - Yakima Waste Systems, Inc., on November 12, 2009

Background

The tariff revisions propose to increase rates for regulated garbage service to recover increased disposal fees as follows:

Docket	Company	Type	Current	Eff. 1/1/10	Increase
TG-091728	Olympic	Compacted & Loose	\$91.35	\$98.20	7.5%
TG-091729	Island	Compacted	\$104.25	\$109.00	4.6%
		Loose	\$110.00	\$115.00	4.6%
TG-091745	Excess Disposal	Compacted & Loose	\$92.00	\$104.00	13.0%
TG-091761	Basin of Yakima	Compacted & Loose	\$27.03	\$30.89	14.3%
TG-091764	Basin of Walla Walla	Compacted & Loose	\$51.45	\$59.17	15.0%
TG-091769	Joe's	Compacted & Loose	\$80.00	\$110.00	37.5%
TG-091774	Rural	Compacted & Loose	\$80.00	\$110.00	37.5%
TG-091775	Yakima Waste	Compacted & Loose	\$27.03	\$30.89	14.3%
TG-091777	Skagit	Skagit Cty. Compacted & Loose	\$83.00	\$89.00	7.2%
		Island Cty. Compacted & Loose	\$104.25	\$109.00	4.76%
TG-091780	Pacific	Compacted & Loose	\$80.00	\$110.00	37.5%

Comparison of Rates

<u>Docket</u>	<u>Company</u>	Residential 1-can Garbage		
		<u>Current</u>	<u>Eff. 1/1/10</u>	<u>Increase</u>
TG-091728	Olympic	\$18.40	\$18.76	2.0%
TG-091729	Island	\$16.26	\$16.54	1.7%
TG-091745	Excess Disposal	\$15.74	\$16.48	4.7%
TG-091761	Basin of Yakima	\$6.60	\$6.94	5.2%
TG-091764	Basin of Walla Walla	\$9.62	\$10.35	7.6%
TG-091769	Joe's	\$12.18	\$14.21	16.7%
TG-091774	Rural	\$11.18	\$12.75	14.0%
TG-091775	Yakima Waste	\$6.42	\$6.64	3.4%
TG-091777	Skagit	Skagit Cty. \$13.90	\$14.40	3.6%
		Island Cty. \$15.40	\$15.90	3.3%
TG-091780	Pacific	\$11.08	\$12.72	14.8%

In the past, staff has treated disposal fee-only increases as “single-item” filings, which did not require:

- Demonstration of need – other than an increase in disposal fees.
- Company-wide data as required in a general rate case.
- Analysis to determine if the resulting rates, on the whole, were fair, just, reasonable and sufficient.

In April 2009, the commission advised solid waste companies that it would begin rigorous enforcement of the commission’s rules and would reject rate case filings that do not comply with the filing requirements of WAC 480-07-505 and -520. WAC 480-07-505 defines as a general rate case, a filing by a solid waste company for an increase in rates due to an increase in disposal fees (other than those of drop boxes). WAC 480-07-520 sets forth the minimum filing requirements for a general rate case.

Consistent with the express language of these rules, it is staff’s opinion that a rate case filed to recover increased disposal fees in this context falls within the definition of a general rate case. Consequently, that rate case must comply with the filing requirements set forth in WAC 480-07-520. Based on the commission’s past lax enforcement of the rules and a State Supreme Court case, several of the regulated solid waste companies would prefer that the commission continue to treat these filings as single-item “pass-through” filings.¹

¹ *Waste Management v. WUTC*, 123 Wn.2d 621 (1994).

In each of the dockets discussed in this memorandum, the company provided information pertinent to the disposal fee increase but did not provide the remainder of the information required by WAC 480-07-520.

Discussion

A general rate case evaluates a company's operations to ensure the company recovers appropriate expenses and earns a fair return on investment. The commission uses the Lurito-Gallagher Model to determine a company's revenue requirement and operating ratio. The relationship of expenses to revenue is expressed as an operating ratio. The Lurito-Gallagher Model uses a company's operating expenses, investment and capital structure as critical inputs. When those inputs change, the resulting revenue requirement and operating ratio also change. The revenue requirement determines the rates customers must pay for service. At the conclusion of a general rate case, staff has a high degree of confidence that the rates are fair, just, reasonable and sufficient.

However, operating expenses, investment, capital structure, number of customers, and other factors change almost immediately. For example, a company may replace an old collection truck with a new collection truck. As a result, while depreciation expense will increase, the new truck would likely be more fuel efficient, it should require less maintenance, it may require less labor to operate, and it may allow more efficient collection of garbage, curbside recycling or yard waste. The purchase may also change the company's investment and capital structure. The effect is the company's revenue requirement and operating ratio will change. Some external changes, such as customer growth (both regulated and non-regulated), decrease average cost per customer. Mergers should lead to greater efficiency and cost savings for the customers, and will likely change the company's capital structure. Investment and capital structure will change over time to reflect any new investments. Any of the many variables can increase or decrease revenue requirement, and the only way to determine whether a company requires additional revenue is to engage in the analysis required in a general rate case.

Some cost items are so large, regulators deal with them separately. In the energy industry, purchased natural gas is 40 to 60 percent of a gas utility's total expense. The company has little control over natural gas prices, which can be volatile. The commission allows the gas utility to use a deferred accounting mechanism to ensure the gas utility will recover its cost to purchase natural gas.

In the solid waste industry, disposal fees vary between 30 to 50 percent of a solid waste collection company's total cost. RCW 81.77.160 specifically requires the commission to include disposal fees in the rates collected from customers. Before doing so, staff ensures that the proposed rates reflect the appropriate amount of disposal fees.

Occasionally, a company may experience a significant change in a single expense soon after it completes a rate case. If there have been no significant changes in the company's other expenses,

such as investment, capital structure, or number of customers served, it may be appropriate for staff to recommend the commission approve a single-item rate filing. However, staff needs to ensure there have been no changes in other factors that could offset the company's need for additional revenue. Staff needs to analyze single-item rate filings on a case-by-case basis.

Review of Each Filing

Murrey's Disposal Company, Inc., d/b/a Olympic Disposal (Olympic). Olympic's last rate increase became effective January 1, 2009. Reviewing the rate case documents, the number of customers is unchanged, revenues decreased as customers switched to less frequent service or smaller containers, inflation has been low, and the company has not changed its collection methods. These factors indicate that there have not been any significant changes since the last rate case. The increased disposal fees are set by the City of Port Angeles. Staff believes the financial information supports the proposed revenue requirement and the proposed rates are fair, just, reasonable and sufficient. Therefore, staff recommends that the commission treat this filing as a single-item filing, allow the proposed rates to become effective on January 1, 2010, by operation of law and, on the commission's own motion, issue an order granting an exemption from the filing requirements of WAC 480-07-520, for this filing only.

Island Disposal, Inc. (Island). Island's last rate increase became effective May 16, 2008. Since that date there has not been any customer growth, inflation has been low, and the company has not changed its collection methods. These factors indicate that there have not been any significant changes since the last rate case. The increased disposal fees are set by Island County. Staff believes the financial information supports the proposed revenue requirement and the proposed rates are fair, just, reasonable and sufficient. Therefore, staff recommends that the commission treat this filing as a single-item filing, allow the proposed rates to become effective on January 1, 2010, by operation of law and, on the commission's own motion, issue an order granting an exemption from the filing requirements of WAC 480-07-520, for this filing only.

Excess Disposal, Inc., d/b/a Excess Disposal Service (Excess Disposal). Excess Disposal's last general rate increase became effective January 1, 2007. Reviewing the rate case documents, staff notes that Excess Disposal's customers increased from approximately 920 to 970 customers (5.4 percent), revenue from residential and commercial customers increased three percent, inflation has been low, and the company has not changed its collection methods. These factors indicate that there have not been any significant changes since the last rate case. The increased disposal fees are set by Pend Oreille County. Staff believes the financial information supports the proposed revenue requirement and the proposed rates are fair, just, reasonable and sufficient. Therefore, staff recommends that the commission treat this filing as a single-item filing, allow the proposed rates to become effective on January 1, 2010, by operation of law and, on the commission's own motion, issue an order granting an exemption from the filing requirements of WAC 480-07-520 for this filing only.

Basin Disposal of Yakima, LLC (Basin of Yakima). Basin of Yakima's last rate increase became effective November 1, 2005. Basin Disposal purchased the Yakima operation in December, 2006. The company has not filed a rate case since the change in ownership. The current owners have implemented an automated collection system throughout the service area. A comparison of the 2007 and 2008 annual reports indicates a slight decrease in disposal tonnage (less than one percent) and modest customer growth of three percent. The increased disposal fees are set by Yakima County. However, staff is unable to determine if Basin of Yakima may be overearning with the approval of the proposed rates. Therefore, staff recommends the commission suspend the filing and allow the rates to become effective on January 1, 2010, on a temporary basis, subject to refund, and require the company to comply with the filing requirements of WAC 480-07-520 no later than March 1, 2010.

Basin Disposal of Washington, LLC, d/b/a Basin Disposal of Walla Walla (Basin of Walla Walla). Basin of Walla Walla's last increase became effective in July 1, 2005. Basin Disposal purchased the Walla Walla operations in December, 2006. The company has not filed a rate case since the change of ownership. A comparison of the 2007 and 2008 annual reports indicates a slight decrease in disposal tonnage (less than one percent) and modest customer growth of .78 percent. The increased disposal fees are set by Walla Walla County. However, staff is unable to determine if Basin of Walla Walla may be overearning with the approval of the proposed rates. Therefore, staff recommends the commission suspend the filing and allow the rates to become effective on January 1, 2010, on a temporary basis, subject to refund, and require the company to comply with the filing requirements of WAC 480-07-520 no later than March 1, 2010.

Harold LeMay Enterprises, Inc., d/b/a Joe's Refuse Service (Joe's). Joe's last general rate increase became effective July 1, 1996. Since then, the company's rates have increased only for disposal fees and recycling. There have been no general rate cases. Waste Connections purchased Joe's, and other LeMay operations, in October 13, 2008. The increased disposal fees are set by Thurston County. However, staff has not analyzed any recent financial information and without that analysis is unable to state that the proposed revenue requirement and the proposed rates are fair, just, reasonable and sufficient. Therefore, staff recommends the commission suspend the filing and allow the rates to become effective on January 1, 2010, on a temporary basis, subject to refund, and require the company to comply with the filing requirements of WAC 480-07-520 no later than March 1, 2010.

Harold LeMay Enterprises, Inc., d/b/a Rural Garbage Service (Rural). Rural's last general rate increase became effective January, 2007. Waste Connections purchased the operations in October 2008. The company files annual reports for all companies under certificate G-98. Therefore, no separated results for disposal tonnages or customer counts are available for Rural. The increased disposal fees are set by Thurston County. However, staff is unable to determine if Rural may be overearning with the approval of the proposed rates. Therefore, staff recommends the commission suspend the filing and allow the rates to become effective on January 1, 2010, on a temporary basis, subject to refund, and require the company to comply with the filing requirements of WAC 480-07-520 no later than March 1, 2010.

Waste Management of Washington, Inc., d/b/a Waste Management of Skagit County (Skagit). Skagit's last rate increase became effective May 1, 2008. Since that date there has been no customer growth, inflation has been low, and the company has not changed its collection methods. These factors indicate that there have not been any significant changes since the last rate case. The increased disposal fees are set by Island County and Skagit County. Staff believes the financial information supports the proposed revenue requirement and the proposed rates are fair, just, reasonable and sufficient. Therefore, staff recommends that the commission treat this filing as a single-item filing, allow the proposed rates to become effective on January 1, 2010, by operation of law and, on the commission's own motion, issue an order granting an exemption from the filing requirements of WAC 480-07-520, for this filing only.

Yakima Waste Systems, Inc. (Yakima Waste). Yakima Waste's last general rate increase became effective February 1, 2003. Since then, Yakima Waste filed two general rate cases and withdrew both on staff's recommendation because staff did not believe the company had demonstrated a need for additional revenue. Waste Connections purchased Yakima Waste, on November 20, 2008. The increased disposal fees are set by Yakima County. However, staff's recent review of the company's financial information revealed the company's potential to overearn with increased rates. The company has also changed ownership. Staff is unable to state that the proposed revenue requirement and the proposed rates are fair, just, reasonable and sufficient. Therefore, staff recommends the commission suspend the filing and allow the rates to become effective on January 1, 2010, on a temporary basis, subject to refund, and require the company to comply with the filing requirements of WAC 480-07-520 no later than March 1, 2010.

Harold LeMay Enterprises, Inc. d/b/a Pacific Disposal and Butlers Cove Refuse Service (Pacific Disposal). Pacific's last rate increase became effective June 26, 2008. Since then, Waste Connections purchased Pacific, and other LeMay operations, on October 13, 2008. Reviewing the rate case documents, staff notes that Pacific's customer count has increased slightly, by 0.73 percent, inflation has been low, Pacific's collection methods have not changed, and Waste Connection's capital structure would result in an increase of approximately \$60,975 (0.46 percent) to the rate case revenue requirement. These factors indicate that there have not been any significant changes since the last rate case. The increased disposal fees are set by Thurston County. Staff believes the financial information supports the proposed revenue requirement and the proposed rates are fair, just, reasonable and sufficient. Therefore, staff recommends that the commission treat this filing as a single-item filing, allow the proposed rates to become effective on January 1, 2010, by operation of law and, on the commission's own motion, issue an order granting an exemption from the filing requirements of WAC 480-07-520 for this filing only.

Customer Comments

The commission has received no customer comments on these filings because WAC 480-70-271(2)(a)(iii) allows the companies to provide notice to customers of an increase in rates due to an increase in disposal fees on the first bill issued after the final commission decision.

Conclusion

Staff has completed its review of the companies' proposed filings and recommends that the commission:

1. Issue an Order granting an exemption from WAC 480-07-520 and allowing the proposed tariffs to go into effect on January 1, 2010, by operation of law, for tariffs filed by:
 - Murrey's Disposal Company, Inc., d/b/a Olympic Disposal, on November 5, 2009
 - Island Disposal, Inc., on November 6, 2009
 - Excess Disposal, Inc., d/b/a Excess Disposal Service, on November 9, 2009
 - Waste Management of Washington, Inc., d/b/a Waste Management of Skagit County, on November 12, 2009
 - Harold LeMay Enterprises, Inc., d/b/a Pacific Disposal and Butlers Cove Refuse Service, on November 12, 2009

2. Issue a Complaint and Order suspending the tariffs, and allowing rates to become effective January 1, 2010, on a temporary basis, subject to refund, and requiring the companies to comply with the requirements of WAC 480-07-520 by March 1, 2010, for tariffs filed by:
 - Basin Disposal of Yakima, LLC, on November 9, 2009
 - Basin Disposal of Washington, LLC d/b/a Basin Disposal of Walla Walla, on November 10, 2009
 - Harold LeMay Enterprises, Inc., d/b/a Joe's Refuse Service, on November 10, 2009
 - Harold LeMay Enterprises, Inc., d/b/a Rural Garbage Service, on November 12, 2009
 - Yakima Waste Systems, Inc., on November 12, 2009