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May 24, 2011

Layne Demas
Washington Utilities and Transportation Commission
1300 S Evergreen Park Drive SW
Olympia, Washington 98504

RE: DOCKET # TG-102022
Rate Increase Request from Sanitary Service Company

The CMRA Northwest Chapter represents members that include independent businesses who actively compete with Sanitary Services Company for commercial recycling services within their service area. Our members are concerned that the rates charged for residential garbage collection provide a cross-subsidization to affiliated business units, allowing them to unfairly compete for commercial recycling services with lower overhead costs.

Sanitary Services Company (SSC) had several questions raised by UTC staff during a 2009 rate increase request, following concerns brought forward by our members after a review of documents from an earlier rate case. While it seems that UTC staff raised many appropriate issues in its August 29, 2009 memo that were addressed in this Docket, we remain concerned that affiliated company books (such as those for Recycling Services, Inc.) and/or those of other non-tariff rate activities performed by SSC, have not been requested for entry into the public record, making it impossible to properly assess the appropriateness of asset and expense allocations, and therefore the "revenue allocation factor" applied in developing these rates is not substantiated.

This level of transparency is especially important to assure rate payers and other stakeholders that the equipment funded by their garbage rates, is not being used to generate revenues for other non-regulated entities or activities that are not disclosed in this process. Recycling Services, Inc. (RSI) and SSC trucks, equipment and staff appear to be used interchangeably in providing competitive commercial recycling services, job site cleanup services, portable toilet service, dry container storage and paper shredding within its service area and long haul trucking service outside its service area.

Additionally, it is not clear from the posted documents in this rate case that SSC has fully responded to what was requested of it in that 2009 memo, including data collection and third party assessment of allocation practices.

We ask that UTC staff place this rate case into suspension for investigation for an adequate period of time for the questions below to be answered, and for information to be made available to rate payers and other stakeholders that address these important questions.

REVENUE AND COST ALLOCATIONS

We are appreciative that SSC has improved its recordkeeping and no longer uses "the cryptic process that Ed had been using all these prior years." (April 1, 2010 e-mail). At issue is that "(T)the company separated the two services using a revenue allocation factor. That allocation treats the two services as having the same average cost."

We take issue with the use of this allocation factor. We believe that the costs of service to commercial recycling customers for construction debris and other materials are higher than those for regular scheduled customers. The very reasoning for having a sole source provider of garbage collection service is to achieve lower costs through economies-of-scale whereby a company can provide a universal service at reasonable rate by defraying operating costs over a broad participation base. However, this benefit does not translate to commercial recycling services where a much smaller number of customers is served by a larger number of competitors, provided costs are properly segregated. SSC has over *25,000* routine customers under its regulated programs, while only a few hundred companies and individuals utilize commercial drop-box recycling services in the same service area. The costs of serving such customers are higher for the following reasons:

1. Lower economies-of-scale.
2. Each new customer must be logged in for each job site.
3. Payment plans must be established.
4. Location of service must be identified and conveyed to the driver for each job and/or trip.
5. Collection of delinquent payment is not just turning off service until landowner pays.
6. Delivery of boxes is often off-road on job sites unlike established garbage collection. This is hard on equipment.
7. The service must be advertised and it is competitive.

1) *Please provide a copy of the three ring binder that Pat Dunn delivered that provided the additional support for SSC time sheet allocations for roll-off drivers identified in the email from Amber Jones to Layne Demas, March 22, 2010.*

2) *Please provide the supporting documentation used in the development of the revenue allocation formula.*

Under the same August 2009 memo, section B.1., Staff suggested that "non-regulated commercial recycling customers appear to be subsidizing regulated drop box customers".

3) *Please provide all records that were reviewed to support this statement. Please include a detailed listing of expenses for the affiliate non-regulated companies providing non-regulated recycling hauling, non-regulated storage container rental, non-regulated shredding service, non-regulated portable toilet service and non-regulated "You Call - We Haul" services and non-G regulated long haul service that are co-mingled with the regulated activities of SSC.*

The Staff report states, "Staff's review shows that the expenses are reasonable and required as part of the company's operations. The company's financial information supports the proposed revenue requirement and the proposed rates and charges are fair, just, reasonable, and sufficient.

4) *Please provide all records reviewed that support this statement.*

<u>RATES</u>

Letter from Ed Nikula to Danner December 17, 2010 – Item #3, paragraph #3.
Mr. Nikula states "The reason for this increase is primarily attributable to BBR's rates being significantly below what is needed to achieve any profit. These rates have been in place since 2002 and haven't evolved as they should have with economic changes in the past 9 years. They are currently 40% below rates in SSC's Tariff #6 for the same level of service"

We find it difficult to believe that BBR (Tariff #3) operated at a loss for the past 9 years and chose not to request an increase. We find it harder to believe that SSC would purchase such an upside down company. It also seems that these statements fail to recognize the significant population increase within the BBR area that occurred over the last 9 years that likely more than offset cost of living increases with improved margin per pickup. The effect of these economies-of-scale need to be analyzed in this situation and we suggest that be considered.

5) *Is any part of the purchase price of the company an (approved/authorized) company expense to be recovered through regulated rates? And if so, what was the purchase price?*

Tariff #7 Document Received December 16, 2010
On page 37 of this document SSC requests a tariff rate for disposal at RDS for "Roofing Materials (Maximum Rate) identified by Type of Material as Building Material at $64.88 per ton.

Recomp of WA, Inc (same page) shows no optional pricing for this type of material

From RDS web site the rates charged by RDS for disposal are listed.
http://www.rdsdisposal.com/disposal.html#rates

Disposal Price List*	
Household Garbage	5¢ per lb. ($100/ton)
Senior Household Garbage	4.5¢ per lb. ($90/ton)
Demo (Construction)	4.5¢ per lb. ($90/ton)
Construction (accounts only)	4.2¢ per lb. ($84/ton)
Wood	3.6¢ per lb. ($72/ton)
Dirt & Sod	3.5¢ per lb. ($70/ton)
Yard Waste	2.25¢ per lb. ($45/ton)
Metal	2¢ per lb. ($40/ton)
Rubble/Concrete	1¢ per lb. ($20/ton)
Concrete with Rebar	2¢ per lb. ($40/ton)
Washing Machines, Dryers, Propane Tanks, Stoves, Hot Water Tanks, & Dishwashers	$5 each
Refrigerators & Freezers	$35 each
Air Conditioner Units	$35 each
All Passenger Tires *Oversized Tires vary based on size & ply*	$5 each

It is our understanding that disposal fees are pass through fees and are not subject to a commission or fee to be paid to the Certificate holder.

This proposed tariff of $64.88 is well below the listed fees of $84 and $90 per ton.

6) Since this material is "solid waste" unless it is recycled why would RDS offer such a reduction to SSC? The material is harder to handle and weighs less per cubic foot.

Our concern is that this low negotiated fee will allow SSC to compete for non-regulated recyclable construction debris hauling and deliver it to the transfer station under a tariff rate that will allow for disposal. This will protect SSC from violating WAC 173-345 by delivering a box of recyclables materials (presumed intended to be recycled) under non-tariff rates that is actually not recycled as seems to be the present case.

7) *Was this favored disposal rate a result of SSC purchasing BBR from RDS?*

We thank the Commission for the opportunity to have meaningful input into the process of establishing rate schedules for regulated haulers. We would be happy to meet with Commission Staff to discuss and/or clarify issues raised herein or provide written response.

Respectfully,

Michael Transue, Executive Director
Construction Materials Recycling Association, Northwest Chapter

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