

Exhibit No. ___ T (MC-1T)
Docket TG-140560
Witness: Melissa Cheesman

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

WASTE CONTROL, INC. (G-101),

Respondent.

DOCKET TG-140560

TESTIMONY OF

Melissa Cheesman

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

July 18, 2014

TABLE OF CONTENTS

I. INTRODUCTION 1

II. BACKGROUND 2

III. RATE DESIGN 4

IV. SCOPE AND SUMMARY OF TESTIMONY 5

 A. Waste Control’s Relationship with Heirborne..... 5

 B. Revenue Requirement Summary 7

 C. Adjustments 8

 D. Exhibits 11

V. RESTATING ADJUSTMENTS..... 13

 A. R-1A,R-1A, Asset Useful Life to Reflect Uniform System of Accounts..... 3

 B. R-6D, Utilities Expense 15

 C. R-6E, Land Rents..... 18

 D. R-6G, Property Tax 23

 E. R-6H, Spare Truck Rents..... 25

 F. R-8, Capital Structure 30

 G. R-9, Lurito-Gallagher Inputs 31

 H. R-10, Allocation of Average Investment to Non-Regulated 35

 I. RC-1, Remove Non-Regulated City of Kalama Operation 37

 J. RC-1A, Remove City of Kalama Disposal Fees 42

VI. PRO FORMA ADJUSTMENTS..... 44

 A. P-1A, Payroll Increase 44

 B. P-2 and P-3, Rate Case Expense and Amortized Rate Case Expense 46

 C. P-4, Fuel..... 49

 D. P-5A, Disposal Increase – Residential; and Commercial..... 51

VII. REMAINING ISSUES 52

 A. Temporary Rates related to disposal fees, Suspended Tariff 15 53

 B. Cost of Investigation Assessed Against WCI..... 54

 C. Staff Communication with WCI..... 56

1 I. INTRODUCTION

2

3 Q. Please state your name and business address.

4 A. My name is Melissa Cheesman. My business address is 1300 S. Evergreen Park
5 Drive S.W., P.O. Box 47250, Olympia, WA 98504.

6

7 Q. By whom are you employed and in what capacity?

8 A. I am employed by the Washington Utilities and Transportation Commission as a
9 Regulatory Analyst.

10

11 Q. How long have you been employed by the Commission?

12 A. I have been employed by the Commission since June 2012.

13

14 Q. Would you please state your educational and professional background?

15 A. I graduated magna cum laude from Seattle University, Albers School of Business
16 and Economics, with a Bachelor of Arts in Business Administration with a focus in
17 accounting in 2010. In 2012, I earned a Masters of Professional Accounting
18 (MPAC) degree from Seattle University, Albers School of Business and Economics.

19 I attended the Western NARUC Utility Rate School (2013) and the National

20 Association of Water Companies 2013, Staff Water Policy Forum. I have audited

21 the following solid waste general rate case dockets (from most current to oldest):

22 TG-140560, TG-131794, TG-131121, TG-130502, TG-130501, TG-121791, TG-

23 121510, and TG-121044. I also previously provided written testimony before the

1 Commission in support of a settlement agreement for dockets TG-130501 and TG-
2 130502.

3
4 **II. BACKGROUND**

5
6 **Q. Please summarize WCI's general rate filing under docket TG-140560.**

7 A. On April, 3, 2014, WCI filed with the Commission a general rate increase and new
8 Tariff No. 16 that would generate approximately \$543,000 (14.5 percent) additional
9 annual revenue for the collection of residential and commercial garbage and drop
10 box services. The stated effective date is June 1, 2014. The proposed increase
11 includes the recovery of a 31 percent increase in disposal fees.

12
13 **Q. Please describe the unique procedural history for WCI's general rate filing**
14 **under docket TG-140560.**

15 A. Docket TG-140560 incorporates the Company's tariff request, testimony, and work
16 papers from a previous general rate filing in docket TG-131794.

17
18 **Q. Please provide a brief history of docket TG-131794.**

19 A. On March 25, 2014, the Commission dismissed WCI's general rate filing in docket
20 TG-131794. In granting Staff's motion for dismissal under WAC 480-07-380, the
21 Commission determined that WCI's filing failed to meet the required evidentiary
22 burden outlined in WAC 480-07-540. Pursuant to the Commission's Order 05 in
23 docket TG-131794, WCI filed a new general rate case on April 3, 2014. The new

1 rate filing became docket TG-140560. WCI incorporated its filing and testimony
2 from TG-131794 into the new docket, TG-140560.

3
4 **Q. Did combining dockets TG-140560 and TG-131794 result in a more complex
5 and voluminous general rate filing?**

6 A. Yes. WCI's general rate filing in Docket TG-140560 is an extremely complicated
7 and confusing case as a result of multiple sets of testimony, multiple and duplicate
8 workbooks, and WCI's refusal to respond to Staff's data requests. The ALJ ordered
9 Staff and the Company's representatives to meet for a technical conference to sort
10 out discrepancies between docket TG-131794 and docket TG-140560. Through
11 teleconferences on May 15 and 16, Staff and the Company identified and explained
12 all discrepancies between the two dockets, which the Company summarized in a
13 written report. As the Commission is well aware, the complexity and confusion led
14 to Staff's motion to compel as well as the Commission's subsequent order affirming
15 application of Commission rule WAC 480-07-140(6)(b) to solid waste rate case
16 filings, compelling the company to respond to Staff's data requests, and ordering
17 both parties to participate in a discovery conference that took place on July 11, 2014.
18 For the discovery conference, the Commission ordered: "WCI and Staff will bring all
19 necessary documents, electronic files, and electronic devices (i.e., laptops, tablets, et
20 cetera) with them. While the main purpose of the conference will be to facilitate the
21 exchange of information and unlocking of hardcodes and external links associated

1 with Staff Data Request Nos. 7, 8, and 11, the parties should use this time to
2 collaborate on any and all outstanding discovery matters.”¹

3
4 **Q. Did the Company provide Staff with responses to all of the hard code issues at**
5 **the July 11, 2014, discovery conference?**

6 A. No. The Company provided a hardcode response to one file “Land rent
7 calculation.xls” and committed to providing responses to the outstanding remaining
8 six files on Monday, July 14.

9
10 **Q. Did the Company provide all responses on Monday, July 14?**

11 A. No. As of this testimony, the Company is continuing to provide responses that stem
12 from Staff’s Data Requests and the discovery conference, including rate design.

13
14 **III. RATE DESIGN**

15
16 **Q. Did the Company and Staff discuss rate design at the Commission-ordered**
17 **discovery conference?**

18 A. In the Commission-ordered discovery conference on July 11, 2014, WCI agreed to
19 provide additional information impacting rate design. The Company acknowledged
20 that it would not be able to provide rate-design-related information until after Staff’s
21 testimony had been filed on July 18, 2014. As a result, the Company requested, and
22 Staff agreed, that Staff will file supplemental testimony on rate design at a later date.

¹ Docket TG-140560, Order 05, at paragraph 23.

1 Once WCI provides the requisite information, Staff intends to file testimony on rate
2 design with the Commission.

3
4 **IV. SCOPE AND SUMMARY OF TESTIMONY**

5
6 **Q. Please explain the purpose and scope of your testimony.**

7 A. The purpose of my testimony is to recommend rates and charges that are fair, just,
8 reasonable and sufficient. I respond to the testimony of Ms. Jackie Davis and Mr.
9 Joseph Willis.

10 First, I present Staff's analysis of the Company's (or WCI) relationship with
11 Heirborne Investment, LLC (HBI) and summarize Staff's recommendations. Next, I
12 present Staff's analysis of WCI's Results of Operations for the 12 months ended
13 June 30, 2013, and propose Staff's recommended restating and pro forma
14 adjustments. Lastly, I discuss remaining issues Staff identified during its
15 investigation. As described in the Rate Design section of my testimony, Staff
16 anticipates filing a proposed rate design after the Company has complied with Staff's
17 Motion to Compel and subsequent Commission order compelling discovery of the
18 hardcoded values in its rate design.

19
20 **A. Waste Control's Relationship with Heirborne**

1 **Q. WCI's affiliated relationships are an important issue in this case. Does Staff**
2 **have any analysis and insight regarding WCI's affiliated relationship?**

3 A. Yes. Based on a review of information provided by WCI and Washington Economic
4 Development Finance Authority (WEDFA), Staff has identified and laid out its
5 interpretation of the relationships WCI has with its affiliates.

6

7 **Q. What are the bases of Staff's analysis and insight regarding WCI's affiliated**
8 **relationship?**

9 A. Staff Formal Data Request 5(d), 12-2, questions 7 through 9, 12-3, 13-1 and follow-
10 up, 13-11 and correspondence with the WEDFA.²

11

12 **Q. Does Staff have Exhibits to illustrate WCI's affiliated relationship?**

13 A. Yes. Exhibit No. ___ (MC-3), "Affiliated Company Relationships and Cash Flow",
14 shows the cash flow relationship among WCI and its affiliates with regards to HBI.
15 Exhibit No. ___ (MC-4), "Bond Relationships", shows WCI's relation to the
16 repayment of HBI bond issuance. Finally, Exhibit No. ___ (MC-5), shows that HBI
17 represents itself as holding a solid waste hauling permit, issued through the Utilities
18 and Transportation Commission, which Staff interprets as HBI posing as WCI's
19 parent.

20

² Exhibit No. ___ (MC-2) WEDFA email correspondence.

1 **Q. Please briefly describe how Staff's interpretation differs for the Company's**
2 **depiction of its relationship with its affiliates.**

3 A. Based on Staff's analysis, HBI acts as a parent to WCI and other affiliates. In the
4 Prefiled Direct Testimony of Mr. Joe Willis, the Company states, "We are sister
5 companies, and as attached Exhibit JW-4 seeks to demonstrate, we all interact with
6 each other in some capacity in the solid waste recycling collection equipment and
7 real property operation context."³ In fact, the Company's Exhibit JW-4 is a
8 graphical depiction that Staff interprets to mean a circular operational
9 interdependence among the sister affiliate companies. Staff's graphical analysis
10 shows a different relationship. Following the cash flow of transactions among the
11 affiliates, HBI acts as a parent company.

12 Secondly, in the 2006 Bond Resolution issued by WEDFA, HBI has the
13 primary obligation. HBI dispenses funds to its affiliates (for approved projects) and
14 then collects payments from the affiliates to repay its obligation.

15 Lastly, in the Tax Exemption and Nonarbitrage Certificate, which is a
16 requirement of the bond issuance, HBI represents that HBI holds a permit with the
17 Washington State Utilities and Transportation Commission (the Commission) for the
18 exclusive franchise right to transport solid waste for the collection and disposal in the
19 Greater Cowlitz County area.⁴ In fact, it is WCI that holds a permit with the
20 Commission, not HBI.

21
22

³ JW-1T, Pg. 3:20 through 4:2.
⁴ Exhibit No. ___ MC-5, page 1, section 4, paragraph (b).

1 **B. Revenue Requirement Summary**

2
3 **Q. Please summarize your recommendation regarding revenue requirement.**

4 A. Staff's analysis proposes an increase of approximately \$132,000 (3.5 percent) in
5 additional annual revenue. In WCI's initial filing transmittal letter and Supplemental
6 Testimony JD-11T,⁵ the Company requested to increase annual revenues by
7 approximately \$543,000 (or 14.5 percent). However, on May 23, 2014, WCI
8 provided a fifth version of its workbook in response to Staff's formal Data Request
9 Nos. 3, 4, and 9.⁶ The Company now proposes to increase annual revenue by
10 approximately \$508,000 (or 13.5 percent).⁷

11
12 **Q. Please state the basis of Staff's analysis and recommendation.**

13 A. Staff bases its rebuttal testimony and recommendation on the most recently provided,
14 fifth version workbook provided on May 23, 2014, that the Company provided in
15 response to Staff's formal Data Requests No. 3, 4, and 9 in which WCI proposes a
16 \$508,000 revenue requirement (13.5 percent).

17
18 **C. Adjustments**

19
20 **Q. Please summarize the restating and pro forma adjustments involved in WCI's**
21 **general rate filing.**

⁵ Davis Direct, Exhibit No. ____ (JD-11T) at 2:5.

⁶ "DR 3 and DR 4 - TG-140560WCI Operations 052214.xls."

⁷ *Id.*

1 A. In an effort to summarize and simplify WCI's general rate filing, Staff created the
 2 following "Table 1 – Restating Adjustments" and "Table 2 – Pro forma
 3 Adjustments" to provide a list of the restating and pro forma adjustments. Column 1
 4 shows the name of the adjustment, and the second and third columns include the
 5 numbering system used by Staff and WCI to identify the various adjustments,
 6 respectively. Column 4 and 5 show whether the adjustment is "contested" or
 7 "uncontested."

**Table 1
Restating Adjustments**

	Description	Reference No.		Contested	Uncontested
		Staff	WCI		
1	Depreciation Re-classification	R-1	R-1		Yes
2	Asset Useful Lives to Reflect Uniform System of Accounts	R-1A	None	Yes	
3	Reduction in Depreciable Asset Cost	R-1B	No #		Yes
4	Customer Refunds Re-classification	R-2	R-2		Yes
5	Fringe Benefit Re-classification	R-3	R-3		Yes
6	Remove Interest Expense	R-4	R-4		Yes
7	Tax Expense Re-classification	R-5	R-5		Yes
8	Remove Political, Lobbying, Franchise, Health Club, and Condo Rent Expenses	R-6	R-6		Yes
9	Office Supply	R-6A	R-6A		Yes
10	Actual Bad Debt	R-6B	R-6B		Yes
11	Other Expenses	R-6C	R-6C		Yes
12	Utilities	R-6D	R-6D	Yes	
13	Land Rents	R-6E	R-6E	Yes	
14	Tires	R-6F	R-6F		Yes
15	Property Tax	R-6G	R-6G	Yes	
16	Spare Truck Rents	R-6H	None	Yes	
17	Remove Fuel Surcharge	R-7	R-7		Yes
18	Capital Structure	R-8	No #	Yes	
19	Lurito-Gallagher Inputs	R-9	No #	Yes	
20	Allocation of Average Investment to Non-regulated Operations	R-10	None	Yes	
21	Remove Non-Regulated City of Kalama Operations	RC-1	RC-1	Yes	
22	Remove Non-Regulated Contract Hauling Operations	RC-1	RC-1		Yes
23	Remove City of Kalama Disposal Fees	RC-1A	RC-1A	Yes	
24	Regulated Allocation of Office Supply Expense	RC-1B	RC-1B		Yes
25	Payroll Expense Re-classification	RC-2	RC-2		Yes

26	Disposal Expense Re-classification	RC-3	RC-3		Yes
----	------------------------------------	------	------	--	-----

1

**Table 2
Pro Forma Adjustments**

	Description	Reference No.		Contested	Uncontested
		Staff	WCI		
1	Payroll Increase	P-1A	P-1	Yes	
2	Management Fee Increase	P-1B	P-1		Yes
3	Rate Case Expense	P-2	P-2	Yes	
4	Amortized Rate Case Expense	P-3	P-3	Yes	
5	Fuel	P-4	P-4	Yes	
6	Disposal Increase – Residential and Commercial	P-5A	P-5A	Yes	
7	Disposal Increase – Drop Box	P-5B	P-5A		Yes

2 **Q. What is the distinction between the “contested” and “uncontested” adjustments**
3 **listed in the above table?**

4 A. For uncontested adjustments, Staff does not oppose and therefore recommends the
5 Commission allow “uncontested” adjustments in their entirety.⁸ For contested
6 adjustments, Staff has a different opinion and requests the Commission follow
7 Staff’s recommendations regarding all “contested” adjustments. I provide additional
8 detail for all contested adjustments in Sections III and IV of my testimony.

9

10 **Q. What is the impact of Staff’s contested adjustments on the Company’s request**
11 **for additional annual revenue?**

12 A. Staff provides the following “Table 3 – Waste Control, Inc., Adjusted Revenue
13 Increase” to show the impact of Staff’s contested adjustments on the Company’s
14 request for additional annual revenue.

⁸ Staff’s recommended revenue requirement includes all uncontested adjustments.

Table 3
Waste Control, Inc.
Adjusted Revenue Increase

Adj.	Description	Revenue Requirement	Average Net Investment
1	Rate Increase as filed on May 23, 2014	\$507,598	1,565,896
2	R-1A Asset Useful Lives to Reflect Uniform System of Accounts	24,370	(29,811)
3	R-6D Utilities	(24,757)	
4	R-6E Land Rents	(81,233)	
5	R-6G Property Tax	(1,946)	
6	R-6H Spare Truck Rents	(25,991)	
7	R-8 Capital Structure	(15,131)	
8	R-9 Cost of Debt	(23,897)	
9	R-10 Allocation of Average Investment to Non-regulated Operations	(17,131)	(118,607)
10	RC-1 Remove Non-Regulated City of Kalama Operations	(126,687)	
11	RC-1A Remove City of Kalama Disposal Fees	(25,124)	
12	P-1A Payroll Increase	(29,865)	
13	P-2 Rate Case Expense	(14,176)	
14	P-4 Fuel	(6,629)	
15	P-5A Disposal Increase - Residential and Commercial	(7,147)	
16	Total Adjustments	<u>(375,346)</u>	<u>(148,418)</u>
17	Staff Adjusted Rate Increase	<u>\$132,252</u>	<u>1,417,479</u>

1

2 **D. Exhibits**

3

4 **Q. Have you prepared exhibits in support of your recommendations?**

5 A. Yes. Staff has prepared the following exhibits:

Exhibit Number	Exhibit Title
MC-1T	Melissa Cheesman's Rebuttal Testimony
MC-2	WEDFA Correspondence
MC-3	Cash Flow Affiliate Company Relationship to Heirborne
MC-4	Bond Relationships
MC-5	Heirborne Bond Tax Exemption and Nonarbitrage Certification
MC-6	Staff's Primary Exhibit

MC-7	Three-Factor Allocation
MC-8	Credit and Reimbursement Agreement
MC-9	City of Kalama Contract
MC-10	Staff Disposal Tons Calculation MC-10
MC-11	Customer Refunds

1

2

3 **Q. Please describe Staff's primary Exhibit No. ____ (MC-6).**

4 A. Exhibit No. ____ (MC-6), contains six schedules that support Staff's proposed
5 adjustments and revenue requirement. The exhibit summarizes and applies Staff's
6 analysis of the Company's restating and pro forma adjustments to the Results of
7 Operations for the 12 months ending June 30, 2013, compares WCI's and Staff's Pro
8 forma Income Statement account balances, and presents the Lurito-Gallagher
9 calculation for the Company's revenue requirement.

- 10 • Schedule 1, is Staff's calculation of the Results of Operation as compared to
11 WCI's results.
- 12 • Schedule 2, is Staff's Summary of Restating Adjustments.
- 13 • Schedule 3, is Staff's Summary of Pro forma Adjustments.
- 14 • Schedule 4, provides supporting calculations for Staff's restating
15 adjustments.
- 16 • Schedule 5, provides supporting calculations for Staff's pro forma
17 Adjustments.
- 18 • Schedule 6, is the Lurito-Gallagher calculation that shows Staff's proposed
19 revenue requirement.

1 V. RESTATING ADJUSTMENTS

2
3 A. R-1A, Asset Useful Life to Reflect Uniform System of Accounts

4
5 Q. Please summarize Staff's recommendation for restating adjustment R-1A,
6 regarding asset useful lives and Uniform System of Accounts (USOA)
7 standards.

8 A. Staff's adjustment aligns the useful lives for assets purchased since WCI's previous
9 rate case to reflect USOA standards.⁹ The approximate net effect of Staff's
10 adjustment decreases net operating income by \$27,000, decreases the average net
11 investment by \$30,000 and increases the revenue requirement by \$24,000.¹⁰

12
13 Q. What is the regulatory basis for Staff's recommendation?

14 A. Under WAC 480-70-066, the Commission publishes a Uniform System of Accounts
15 for solid waste collection companies, which "defines accounting, financial, and other
16 procedures the Commission uses to determine if rates are fair, just, reasonable, and
17 sufficient." Additionally, WAC 480-70-066 states, "The Commission recommends
18 companies maintain their financial and accounting records in concurrence with the
19 USOA."

⁹ The Company informed Staff that Commission Staff requires the Company to use longer depreciable lives than the USOA standards. In formal Data Request 13-3, Staff requested background information for such a requirement. WCI did not provide any written communication or documentation. Staff has found nothing to support the Company's statement.

¹⁰ The Company depreciates garbage collection trucks using 10-year useful lives for rate making purposes. The Company's per book depreciation records show it depreciates garbage trucks using eight-year useful lives. Staff proposes seven-year useful lives for garbage trucks. This is fewer years than the Company uses for rate making and per books. The result is higher depreciation expense and lower average net investment.

1 Uniform System of Accounts for Class A and B Solid Waste Collection
 2 Companies, Appendix 1 includes depreciation standards for garbage collection
 3 equipment. The USOA depreciation policy recommends that schedules for
 4 equipment included in the last rate investigation remain unchanged, but equipment
 5 purchased since the last rate investigation should follow the recommended lives and
 6 salvage values¹¹, as listed in the table below:
 7

Asset	Condition	Life	Salvage Value
Drop Boxes and Containers	New	10 Years	None
	Used	3-7 Years	None
Trucks	New	7 Years	20 percent
	Used	5 Years	33 percent
Service Cars	New/Used	5 Years	33 percent

8
 9 **Q. Please explain why Staff's adjustment is appropriate.**

10 **A.** The USOA standards apply to solid waste collection companies for rate making
 11 purposes. As noted above, specific portions of the USOA recommend depreciation
 12 standards for garbage collection equipment. To reflect the applicable USOA
 13 standards, Staff adjusted the useful lives of Garbage Trucks and a Drop Box Truck
 14 that WCI purchased and placed into service since its last rate case.
 15

¹¹ The USOA policy states that the above lives should be used unless the Company's history or policy indicates a shorter life. However, WCI is requesting longer lives, so that portion of the USOA is not applicable.

1 **Q. Please briefly explain Staff's interpretation of the Company's adjustment.**

2 A. WCI did not propose an adjustment to the useful lives of depreciable assets for
3 Garbage Trucks, Service Cars, and Drop Box Trucks. As explained above, Staff has
4 made adjustments to the useful lives of Garbage Trucks and a Drop Box Truck
5 purchased and placed into service since WCI's last rate case.

6

7 **B. R-6D, Utilities Expense**

8

9 **Q. Please summarize Staff's recommendation for restating adjustment R-6D,**
10 **regarding Utilities Expense.**

11 A. Staff's recommended adjustment allocates the shared Utilities expense to WCI using
12 a three-factor allocation method. The three-factor methodology allocates shared
13 affiliate facilities expense to prevent or limit, to the extent possible, cross-
14 subsidization of the expense. The approximate impact increases net operating
15 income \$23,000 and decreases revenue requirement by \$25,000.

16

17 **Q. What is the regulatory basis for Staff's recommendation?**

18 A. Staff's recommendation follows the fundamental accounting guidelines that if costs
19 cannot be directly assigned, they should be allocated based on a reasonable cost
20 driver and supported in the general rate case.

21

1 **Q. Please explain why Staff's recommendation is appropriate.**

2 A. Because WCI has not provided supporting documentation for its allocation¹²,
3 therefore, Staff was forced to calculate a more appropriate allocation. Staff uses an
4 average of WCI's percentage, of three broad categories: revenue, number of
5 employees, and fixed asset per book value, in relation to those same figures for all
6 affiliates that share common facilities.

7 Each of the three broad categories impact business differently. In order to
8 capture these differences, Staff gave each broad category equal weighting. In this
9 way, each category influences the calculation equally, thus providing a reasonable
10 result.

11

12 **Q. Please explain Staff's recommended calculation to allocate utility expenses.**

13 A. Please refer to my Exhibit No. ____ (MC-7) for the calculation.

14 First, Staff identified the affiliated companies that share the common
15 facilities (WCI, WCE, WCR and West Coast Paper Fibers, Inc. or WCPF). Second,
16 Staff selected cost drivers that recognize common activities that consume costs and
17 are based on information provided by the Company: number of employees, revenue,
18 and fixed asset per book value. Third, Staff calculated a percentage for each of the
19 three common cost drivers. Fourth, Staff summed the percentages of the three
20 common cost drivers to arrive at the "Total Percentages". Fifth, the "Total

¹² The Company's allocation factors are hardcoded values, which the Company has not demonstrated are reasonable cost drivers and are not supported in its case. Additionally, Staff's formal Data Request 11, requested supporting calculation or sources of identified hardcoded values. The Company provided its response on July 14, 2014. The Company responded that the allocation factors are based on usage, but provides no usage support. The Company's response further states that Staff used the property tax allocation represented in WP-15.

1 Percentages” are then divided by three to arrive at the three-factor combined cost
2 allocation factor. WCI’s three-factor allocator where WCI and two or three other
3 affiliates share expense is 21.8 percent.¹³ WCI’s three-factor allocator where WCI
4 and one other affiliate share expense is 50.8 percent.¹⁴ Finally, Staff applies the
5 percentage to applicable shared expenses and facilities that are not otherwise
6 supported in WCI’s case.

7
8 **Q. Why does Staff’s method provide a reasonable result?**

9 A. Staff’s method provides a reasonable result because it takes multiple relevant cost
10 drivers into consideration, uses a combined average in assigning costs, and is
11 supported by Staff’s calculation and documentation provided by the Company.

12
13 **Q. What information did Staff use that was provided by the Company?**

14 A. On July 9, 2014, staff issued formal Data Request 21.¹⁵ WCI provided the number
15 of employees and WCPF’s income statement and balance sheet for 2012 and 2013.
16 WCI objected and could not provide customer counts for WCE, WCR and WCPF
17 because this information is not compiled in its ordinary course of business.
18 Additionally, Staff used WCI and affiliates’ financial information provided by the
19 Company as part of its minimum filing requirements.

20

¹³ WCPF included operational and financial data is so minimal that it does not significantly change the three-factor results.

¹⁴ The Company’s allocation factor is 50 percent when allocating between WCI and one other affiliate. Because the Company’s and Staff’s allocation factor are immaterially different, Staff did not change WCI’s allocation factor. Staff maintains that its allocation three-factor, 50.8 percent, is reasonable.

¹⁵ Staff requested test year information on the number of employees, number of customers for the affiliates (WCI, WCE, WCR, and WCPF), and an income statement and balance sheet for WCPF.

1 **Q. Please briefly explain Staff's interpretation of the Company's proposed**
2 **adjustment.**

3 A. WCI proposes that the Commission remove a portion of Utilities expense based on
4 the Company's Property tax expense calculation. If three affiliate companies are
5 allocated a share, then each company pays one-third of the expense. Furthermore, if
6 two affiliate companies are allocated a share, then each company pays one-half of
7 the expense. Staff did not observe WCI allocating a portion of shared expense to
8 WCPF. However, Exhibits JW-1T, JD-1T and JD-11T do not address this
9 adjustment.

10

11 **C. R-6E, Land Rents**

12

13 **Q. Please summarize Staff's recommendation for restating adjustment R-6E,**
14 **regarding Land Rents.**

15 A. Staff proposes to price the affiliated Land Rents at cost plus a return. Included in
16 HBI's and HBII's costs are depreciation expense plus an allocated portion of
17 operating expenses. Staff used HBI's and HBII's financial information to calculate a
18 reasonable return on their respective investments. Staff used each company's
19 balance sheet and income statement to calculate a capital structure and the cost of
20 debt for each company. Staff used the discounted cash flow (DCF) method¹⁶ for
21 HBI's and HBII's cost of equity.

¹⁶ Staff sampled publicly traded companies in the Real Estate Investment and Truck Rental industries. The public companies selected included varying capital structures, and had data available on the U.S. Securities and Exchange Commission website and Value Line.

1 Additionally, Staff's adjustment allocates the shared Land Rents depreciation
2 and operating expenses and average net investment using a three-factor allocation
3 method. The method allocates depreciation expense and average net investment
4 among the affiliates that share these facilities to prevent or limit, to the extent
5 possible, cross subsidization of the expense. The approximate impact increases net
6 operating income \$76,000 and decreases revenue requirement by \$81,000.
7

8 **Q. What is the regulatory basis for Staff's recommendation?**

9 A. WCI's Land Rent expense is an affiliated interest transaction per RCW 81.16.010.
10 The Commission may disapprove, in whole or in part, payments to affiliates that are
11 not reasonable.¹⁷ The Commission's policy is to reasonably price affiliated interest
12 transactions at lower of cost or market.¹⁸
13

14 **Q. Please explain why Staff's recommendation is appropriate.**

15 A. Staff's adjustment allows full recovery of the properties' original cost, full recovery
16 of operating expenses, and a fair return. The allowable return is calculated with
17 respect to each affiliates' (HBI and HBII) most recent actual capital structure, actual
18 calculated cost of debt and a comparable cost of equity using Discounted Cash Flow
19 (DCF).

Additionally, Staff's proposed DCF method calculates a cost of equity by adding the Value Line projected growth of earnings (over six years) to the most current dividend yield.

¹⁷ RCW 81.16.030

¹⁸ Utilities & Transp. Comm'n. v. Bremerton-Kitsap Airpporter, Docket TC-001846, Third Supplemental Order Initial Order Granting Complaint; Ordering Revenue Reduction, p. 13, paragraph 39.

1 Staff used a separate total company most current capital structure, for HBI
2 and HBII, which does capture and take into account each of the companies' actual
3 financial risk. Furthermore, Staff has observed that the majority of HBI's debt does
4 relate to specific assets in its balance sheet. However, all of HBI's assets¹⁹ secure
5 the majority of HBI's debt.

6 Staff allocated depreciation expense and average net investment to WCI
7 using a three-factor weighted allocations method.²⁰ Staff's allocation constructively
8 and reasonably includes a portion of Land Rents to WCI operations. Staff further
9 allocates the Land Rents expense between WCI's regulated and non-regulated
10 operations using the customer count allocation factor.

11 Staff acknowledges that affiliate recovery of historical costs decrease as
12 properties fully depreciate. The very nature of cost plus a return has declining cost
13 recovery when assets are fully depreciated and no new improvements are placed into
14 service. If this was not the case, ratepayers would have to pay for a fully depreciated
15 asset forever. The Commission would not allow a public service company that
16 owned an asset to continue to recover depreciation costs forever; therefore, the
17 Commission should not allow similar recovery through a lease transaction with an
18 affiliated entity.

19
20 **Q. What is Staff's calculation of HBI's and HBII's capital structures?**

21 A. Staff used HBI's and HBII's most current balance sheet (as of December 31, 2013),
22 provided by WCI, to calculate each actual total company's capital structures. Staff's

¹⁹ Moreover, all affiliates WCI, WCE, WCR, and WCPF assets are also held as collateral to secure HBI's debt.

²⁰ See *supra* pp. 16-17.

1 calculated actual total capital structure for HBI is 93.7 percent actual debt and 6.3
2 percent equity. Staff's calculated actual total capital structure for HBII is 53.8
3 percent actual debt and 46.2 percent equity.
4

5 **Q. How did Staff calculate HBI's and HBII's cost of debt?**

6 A. Staff used HBI's most current balance sheet and interest expense, provided by WCI,
7 to calculate HBI's cost of debt. Staff divided test period interest expense by actual
8 debt to arrive at 1.93 percent cost of debt for HBI. Staff applied this same treatment
9 to HBII. This resulted in a cost of debt of 4.28 percent for HBII.
10

11 **Q. How did Staff determine HBI's and HBII's cost of equity?**

12 A. Staff completed a DCF calculation for publicly traded property rental companies
13 sums projected earnings growth plus current dividend yield.²¹ Based on a
14 comparable capital structure to HBI's, Staff calculated cost of equity at 12.5 percent.
15 Based on a comparable capital structure to HBII's, Staff calculated cost of equity at
16 13.1 percent. Staff's DCF calculation is included in Exhibit No. ___ MC-6, Schedule
17 4, R-6E.
18

19 **Q. Please briefly explain Staff's interpretation of the Company's adjustment.**

20 A. WCI's testimony proposes to exclude from rates approximately \$ 9,000.²² WCI did
21 provide a cost plus a return calculation that includes test year asset depreciation of

²¹ All data for Staff's DCF analysis was taken from Value Line and the SEC website and last updated April 10, 2014.

²² File "DR 3 and DR 4 - TG-140560WCI Operations 052214.xls," tab "WP-13 Rent," and cell C36.

1 rented properties, an allocated portion of HBI's and HBII's operating expenses, and
2 a return calculation.²³ Additionally, WCI calculated HBI and HBII asset specific
3 hypothetical capital structure (organized by address) and asset specific cost of debt.
4 WCI set the cost of equity at 15 percent for all assets.²⁴
5

6 **Q. Please explain Staff's concerns relating to WCI's proposed calculation.**

7 A. Staff has four concerns with the Company's calculation. First, WCI is proposing an
8 asset specific hypothetical capital structure that does not accurately address or
9 capture HBI's or HBII's current financial risks. Using an asset specific hypothetical
10 capital structure inflates the calculated return on investment and is not the
11 Commission's normal practice.

12 Second, WCI proposes an asset specific hypothetical cost of debt. It is the
13 Commission's practice that cost of debt reflects the most current total company
14 actual calculated cost of debt.

15 Third, WCI proposes to apply a 15 percent cost of equity because that is what
16 Bremerton-Kitsap Airporter received in TC-001846. While this is true, Staff
17 believes the cost of equity has a temporal component and should be based on the
18 most current information available.

19 Finally, WCI proposes to allocate depreciation expense and average net
20 investment based on unsupported allocation factors. The allocation of depreciation

²³ File "Land rent calculations.xls."

²⁴ WCI cites Bremerton-Kitsap Airporter, TC-001846. However, the Initial and Final Orders does not specifically authorize a 15 percent cost of equity for affiliate rental properties. Instead, Appendix C to the Initial Order simply demonstrates the calculation of the allowed expenses of \$42,115 (which includes a 15 percent cost of equity and a 5 percent cost of debt).

1 expense and average net investment of the shared assets needs to be based on
2 demonstrated cost drivers.

3
4 **D. R-6G, Property Tax**

5
6 **Q. Please summarize Staff's recommendation for restating adjustment R-6G,**
7 **regarding Property Taxes.**

8 A. Staff's adjustment allocates the shared Property Tax expense using a three-factor
9 allocation method to WCI's operations. The method allocates expense among the
10 affiliates that share these facilities to prevent or limit, to the extent possible, cross
11 subsidization of the expense. The approximate impact increases net operating
12 income by \$2,000 and decreases revenue requirement by \$2,000.

13
14 **Q. What is the regulatory basis for Staff's recommendation?**

15 A. Staff's recommendation follows the fundamental accounting guidelines that if costs
16 cannot be directly assigned, they should be allocated based on a reasonable cost
17 driver and supported in the general rate case.

18
19 **Q. Please explain why Staff's recommendation is appropriate.**

20 A. Because WCI has not provided supporting documentation for its allocations, Staff
21 calculated a more appropriate allocation. Staff uses a combined average of WCI's
22 percentage of revenue, number of employees, and fixed asset per book value in
23 relation to all affiliates that share these common facilities.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19

Q. Why does Staff's method provide a reasonable result?

A. As I previously explained on pages 15 through 17 above, Staff's allocation method provides a reasonable result because it takes multiple cost drivers into consideration, uses a combined average in assigning costs, and is supported by calculation and documentation provided by the Company. My detailed calculation is provided in my Exhibit No. ____ (MC-3).

Q. What information did Staff use that was provided by the Company?

A. WCI provided Staff with Excel file spreadsheets that include the Property Tax expense allocation among affiliate companies.²⁵ Staff's calculation uses the financial data provided in these spreadsheets.

Additionally, on July 9, 2014, Staff issued formal Data Request 21.²⁶ WCI provided the number of employees and WCPF's income statement and balance sheet for 2012 and 2013. WCI objected and stated that it could not provide customer counts for WCE, WCR and WCPF because this information is not compiled in its ordinary course of business. Staff incorporated WCI's response to DR 21 in its analysis and proposed allocation.

²⁵ File "DR 3 and DR 4 - TG-140560WCI Operations 052214.xls," tab "WP-15 p 1 2012 Property Taxes" and "WP-15 p 2 2013 Property Taxes."

²⁶ Staff request test year information on the number of employees, number of customers for the affiliates (WCI, WCE, WCR, and WCPF), and an income statement and balance sheet for WCPF.

1 **Q. Please briefly explain Staff's interpretation of the Company's adjustment.**

2 A. WCI removed a portion of Property Tax expense related to property purchased from
3 Applied Industries. WCI then allocates the expense between regulated and non-
4 regulated operations based on the Company's internal process. However, Exhibits
5 JW-1T, JD-1T and JD-11T do not address this adjustment.

6

7 **E. R-6H, Spare Truck Rents**

8

9 **Q. Please summarize Staff's recommendation for restating adjustment R-6H,**
10 **regarding Spare Trucks Rents.**

11 A. Staff proposes to price the affiliated spare truck rents at cost plus a return. To
12 determine cost, Staff allocates each spare truck's expenses based on the ratio of the
13 number of times WCI uses WCE's spare trucks compared to the number of
14 collection days (260) per year. Staff used WCE's depreciation schedule, provided by
15 WCI, for depreciable useful truck lives. Staff used WCE's most recent balance sheet
16 and interest expense, provided by WCI, to calculate total company capital structure
17 and cost of debt. Staff used the DCF method to set WCE's cost of equity. The
18 approximate impact increases net operating income \$24,000 and decreases revenue
19 requirement by \$26,000.

20

21 **Q. What is the regulatory basis for Staff's recommendation?**

22 A. WCI's Spare Truck Rents expense is an affiliated interest transaction per RCW
23 81.16.010. The Commission may disapprove whole or in part payments to affiliates

1 that are not reasonable.²⁷ The Commission's policy is to reasonably price affiliated
2 interest transactions at lower of cost or market.²⁸

3
4 **Q. Please explain why Staff's recommendation is appropriate.**

5 A. Staff's adjustment allows full recovery of the spare trucks' original cost and related
6 vehicle operating expenses for the days that WCI used the spare trucks during the
7 test year, plus a fair return. The allowable return is calculated with respect to WCE's
8 most recent actual capital structure, actual calculated cost of debt and a comparable
9 cost of equity using Staff's DCF analysis for the Truck Rental industry.

10 WCE's most current capital structure is appropriate because it accurately
11 captures and takes into account the company's actual financial risk. Actual
12 calculated cost of debt is appropriate because it also reflects WCE's actual financial
13 obligations. Staff's cost of equity based on DCF is appropriate because it is the most
14 widely accepted and viable means to estimate a reasonable rate of return on equity.²⁹

15 Staff acknowledges that affiliate recovery of historical costs decrease as
16 properties fully depreciate. The very nature of cost plus a return has declining cost
17 recovery when assets are fully depreciated and no new improvements are placed into
18 service. If this was not the case, ratepayers would have to pay for a fully depreciated
19 asset forever. The Commission would not allow a public service company that
20 owned an asset to continue to recover depreciation costs forever. Therefore, the

²⁷ RCW 81.16.030

²⁸ Docket TC-001846, Initial Order Granting Complaint; Ordering Revenue Reduction, page 13, paragraph 39.

²⁹ *Utilities & Transp. Comm'n. v. PacifiCorp*, Docket UE-130043, Final Order at pp. 16, 25.

1 Commission should not allow similar recovery through a lease transaction with an
2 affiliated entity.

3
4 **Q. Why does Staff's collection day calculation only include WCI's test year usage?**

5 A. Staff requested spare truck usage data for WCI and WCE for years 2010 – 2012.³⁰

6 The Company responded that Exhibit JD-39³¹ is the data they provided for spare
7 truck usage.³² Later Staff requested a list of all companies that use WCE spare
8 trucks and all related usage.³³ The Company responded that only WCI used WCE's
9 spare trucks during the test period. However, a second affiliate, Waste Control
10 Recycling (WCR), occasionally uses WCE's spare front loader truck but did not do
11 so during the test year.

12 Additionally, Staff requested support for the WCI's hardcoded estimated
13 usage factor of 75 percent.³⁴ The Company responded that they "...used our
14 reasonable good faith efforts to apportion and allocate the usage in the test period
15 and cannot scientifically retroactively create contemporaneous records bifurcating
16 actual time increment allocations between the regulated Company and affiliate
17 WCE's usage." In this way the Company maintains it has supported WCI's usage of
18 WCE's spare trucks.

19

³⁰ Staff formal Data Request 12-9, Question 1(c).

³¹ File "DR 3 and DR 4 - TG-140560WCI Operations 052214.xls", tab "WP-19 Truck Rent", range A39:P46.

³² The Data provided only reflects WCI's test year usage.

³³ Staff formal Data Request 16.

³⁴ Staff formal Data Request 12-9, Question 1(a).

1 **Q. What is Staff's calculation of WCE's capital structure?**

2 A. Staff used WCE's most current balance sheet (as of December 31, 2013), provided
3 by WCI, to calculate actual total company's capital structure. Staff calculated actual
4 total capital structure for WCE is 51.5 percent actual debt and 48.5 percent equity.
5

6 **Q. How did Staff calculate WCE's cost of debt?**

7 A. Staff used WCE's most current balance sheet and interest expense, provided by WCI,
8 to calculate WCE's cost of debt. Staff divided test period interest expense by actual
9 debt to arrive at 6.14 percent cost of debt.
10

11 **Q. How did Staff determine WCE's cost of equity?**

12 A. Staff completed a DCF calculation for publicly traded truck rental companies.³⁵
13 Based on a comparable capital structure to WCE, Staff set cost of equity at 11.8
14 percent. Staff's DCF calculation is included in Exhibit No. ___ MC-6, Schedule 4,
15 R-6H.

16 Alternatively, Staff calculated a DCF for publicly traded solid waste
17 companies and found that the cost of equity with a comparable capital structure is
18 also 11.8 percent.
19

20 **Q. How did Staff allocate expenses associated with the trucks WCI leased from its**
21 **affiliate, WCE?**

³⁵ All data for Staff's DCF analysis was taken from Value Line and the SEC website and last updated April 10, 2014.

1 A. Staff allocated each asset's depreciation expense, related vehicle operating expenses,
2 and average net investment to WCI based WCI's specific spare truck test year usage
3 to total annual collection days (260).³⁶ Staff's recommendation reasonably
4 calculates depreciation expense using the assets' booked useful lives.³⁷ Staff further
5 allocates the Spare Truck Rents expense between WCI's regulated and non-regulated
6 operations using the pickups allocation factor.

7

8 **Q. How did Staff determine the useful lives and salvage values in its calculation?**

9 A. Staff used the USOA as guidance for setting useful lives and salvage values for rate
10 making purposes. Staff set all the spare truck rented to WCI using five-year useful
11 lives.³⁸

12

13 **Q. Please briefly explain Staff's interpretation of the Company's adjustment.**

14 A. WCI does not propose an adjustment for Spare Truck Rents. WCI included in its pro
15 forma Excel workbook a cost plus a return calculation in support of its per books
16 expense for Spare Truck Rents.³⁹

17

³⁶ Total annual collection days are calculated as five weekdays multiplied by 52 weeks which equals 260 days. Staff then takes the number of time WCI reported usage of the spare truck and divide the reported number by total annual collection days. For example, WCI use WCE spare truck # 3, 67 times during the test year. The Percentage of collection days per year is 25.8 percent (equals 67 days used divided by 260 collection days per year).

³⁷ See USOA discussion, Pages 10:7 through 11:16.

³⁸ Staff uses five years instead of seven because based on asset records WCE historically utilize five years for its trucks.

³⁹ Files "DR 3 and DR 4 - TG-140560WCI Operations 052214.xls," tab "WP-19 Truck Rents."

1 **F. Adjustment R-8, Capital Structure**

2
3 **Q. Please summarize Staff's recommendation for restating adjustment R-8 relating**
4 **to capital structure.**

5 **A.** Staff recommends rejecting the Company's hypothetical capital structure, instead,
6 recommends using the most current calculation of WCI's actual capital structure
7 based on WCI's calendar year 2013 balance sheet. Staff's adjustment decreases
8 revenue requirement by approximately \$15,000.

9
10 **Q. Please briefly explain Staff's interpretation of the Company's hypothetical**
11 **capital structure adjustment.**

12 **A.** WCI proposes to adjust its test year capital structure by adding to test year total
13 equity the difference between the test year financial statement's balance sheet (book)
14 and the rate case accumulated depreciation⁴⁰ and reductions for shared assets.

15
16 **Q. Please explain why Staff's adjustment is more appropriate.**

17 **A.** First, WCI's actual 2013 balance sheet and capital structure accurately reflects the
18 Company's actual economic risks and obligations. WCI's actual financials are the
19 basis for the Company's risk profile and the terms under which it has accessed
20 capital from creditors and equity investors. The proposed hypothetical capital
21 structure, based on the change in accumulated depreciation and cost reductions due
22 to shared assets, does not reflect actual financial risk or required operational funding.

⁴⁰ As noted in Section III.A. of my testimony above, the Company proposes to use different, longer asset lives for ratemaking purposes.

1 In Staff's opinion, it makes no sense to base rates on a hypothetical capital structure
2 that only exists within the context of WCI's adjustments to assets lives, which the
3 Company proposes solely for ratemaking purposes. Revenue requirement
4 calculations through the Commission's approved Lurito-Gallagher methodology and
5 the subsequent real rates paid by ratepayers should reflect the actual economic risks
6 and obligations facing a regulated company.

7 Second, an adjustment to the results of operations for expenses, revenues or
8 assets does not require an adjustment to capital structure. Staff and WCI have made
9 several adjustments (see Table 1 and Table 2 for a complete list of adjustments) to
10 expenses, revenues, and asset costs that did not result in an adjustment to the
11 Company's capital structure. WCI's proposed adjustment ignores all other changes
12 to its pro forma that impact net income.

13 Finally, Staff has reviewed the depreciation schedules for WCI's two
14 previous general rate case filings, dockets TG-021517 and TG-091653, that resulted
15 in permanent rates and found no evidence that Staff or the Company adjusted the
16 useful lives of any asset the Company filed in those dockets.

17
18 **G. Adjustment R-9, Lurito-Gallagher Inputs**

19
20 **Q. Please summarize Staff's recommended cost of debt for the Lurito-Gallagher**
21 **calculation.**

1 A. Staff proposes an actual calculated 1.93 percent cost of debt to reflect HBI's, the
2 lending affiliate, actual cost of borrowing funds to lend to WCI.⁴¹ Staff's
3 recommended actual calculated cost of debt reflects the most recently available HBI
4 financial information.⁴² Staff's adjustment decreases revenue requirement by
5 approximately \$ 24,000.

6

7 **Q. Please briefly explain Staff's interpretation of the Company's adjustment.**

8 A. WCI proposes a cost of debt to reflect test year prime plus 200 basis points, which
9 results in a 5.25 percent cost of debt.⁴³ However, Exhibits JW-1T, JD-1T and JD-
10 11T do not discuss the Company's calculation or explain the proposal.

11

12 **Q. Please explain the rules and regulatory principles that apply when a regulated**
13 **company borrows money from an affiliate.**

14 A. RCW 81.16.010 generally defines affiliate interests to include entities with more
15 than a five percent overlap in ownership.⁴⁴ Under RCW 81.16.030, the Commission
16 may disapprove payments to affiliates that are not reasonable. The Commission's
17 policy as to reasonableness is to price affiliated interest transactions at the lower of
18 cost or market.⁴⁵

⁴¹ WCI responded to Staff formal Data Request 12-2, question 9 with Notes Payable issued by affiliate Heirborne Investments, LLC (HBI). This is an affiliate transaction.

⁴² Heirborne Investment, LLC, Interest Expense provided by WCI in response to Formal Data Request 5(a) and actual debt derived from Balance Sheet, as of December 31, 2013, provided by WCI in response to Formal Data Request 5(b).

⁴³ The Company's calculation is prime plus 200 bases points.

⁴⁴ HBI and WCI have the same common ownership with 100 percent overlap in ownership.

⁴⁵ Docket TG-001846, Initial Order Granting Complaint; Ordering Revenue Reduction, page 13, paragraph 39.

1 In UW-980072, the Commission ruled that American Water Resources,
2 Inc.'s, (the regulated Company) affiliated interest debt transactions are priced at
3 arm's-length, actual rate (market) or prime rate plus 200 basis points. The
4 Commission-allowed interest rate simulated the interest rate that would be available
5 to the regulated company in the competitive marketplace. Furthermore, in that
6 docket, the owner loaned funds to his own business (the regulated company) and did
7 not borrow funds in the market to loan to his own business at an increased rate.

8
9 **Q. Please explain why Staff's recommendation is appropriate.**

10 A. First, Staff's adjustment to cost of debt accurately reflects the cost of debt that HBI
11 pays for borrowed funds that it lends to WCI.⁴⁶ Based on the review of affiliate HBI
12 (lender) loan documents, 2013 Balance Sheet, and 2013 interest expense, HBI's
13 2013 cost of debt is 1.93 percent.⁴⁷ Thus, Staff's recommendation to price WCI's
14 debt at the actual cost to HBI complies with Commission policy to price affiliate
15 transactions at the lower of cost or market.

16 Second, WCI is a listed borrower in the Credit and Reimbursement⁴⁸ loan
17 documents with Union Bank and has the ability to borrow the funds directly at the
18 same rate terms as HBI. Moreover, per the collateral documents, provided by WCI,
19 all of WCI's assets are held as collateral for all debt between HBI and Union Bank.

20 Therefore, Staff's recommendation to price WCI's debt at 1.93 percent reflects past

⁴⁶ All of WCI's assets are listed as collateral and WCI is a listed borrower for HBI Debt with Union Bank. Please see Remaining Issues section on page of my testimony for further discussion regarding HBI's bond.

⁴⁷ WCI's test year cost of debt, which is the interest rate paid to the affiliate, is 8.93 percent. For 2013, WCI's cost of debt is 6.99 percent. The Company is currently proposing 5.25 percent.

⁴⁸ Exhibit No. ___ MC-8.

1 Commission precedent to require affiliate lending transactions to reflect the interest
2 rates available to the regulated entity in a competitive marketplace.

3 Finally, Prime plus 200 basis points, 5.25 percent, would result in a rate
4 above the cost of debt available to WCI to borrow directly from Union Bank, and
5 above the actual cost of debt paid by the affiliate,⁴⁹ HBI, to Union Bank. A 5.25
6 percent cost of debt would also be substantially higher than the market lending rates
7 published by noteworthy and credible sources over the same time period.

8
9 **Q. Did Staff review credible resources to approximate market lending rates under**
10 **similar terms?**

11 A. Yes. Staff surveyed market rates for bank lending and SWAP interest rates⁵⁰ for
12 five-year loans for the same periods during which WCI borrowed funds from HBI.⁵¹
13 The World Bank reports that the United States' (US) average bank lending rates for
14 2009 to 2012 have remained flat at 3.3 percent.⁵² The US Council of Economic
15 Advisers reported that prime rates for 2009 to 2012 remained flat at 3.25 percent.⁵³
16 Staff calculated an averaged 1.78 percent for SWAP interest rates from 2009 to 2013
17 based on information obtained through the Federal Reserve.⁵⁴

18

⁴⁹ HBI's actual calculated cost of debt based on the most current data available (as of December 31, 2013) is 2013 Interest Expense \$288,980 divided by actual interest bearing debt \$ 15,001,511, or 1.93 percent.

⁵⁰ "An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount." – Source:

<http://www.investopedia.com/terms/i/interestrateswap.asp> Accessed on 6/18/2014

⁵¹ Staff selected five year loans because WCI provided long-term affiliate debt agreements that contain repayment period of 60 months (one debt agreement contains a repayment period of 59 months) or five years.

⁵² <http://data.worldbank.org/indicator/FR.INR.LEND>, Accessed on 03/18/2014

⁵³ Council of Economic Advisers, Economic Indicators: August 2013, United States Government Printing Office Washington: 2013.

⁵⁴ <http://www.federalreserve.gov/releases/h15/data.htm>, Accessed on 03/18/2014

1 **Q. What is Staff's understanding of the rate making impact of the Company's**
2 **arrangement with its affiliate, HBI?**

3 A. Staff understands WCI's proposal would allow an affiliated entity to lend money to a
4 public service company at interest rates above market and cost-based rates.
5 Furthermore, under WCI's proposal, an affiliate could pledge a regulated public
6 service company's assets and income streams as collateral to secure a low interest
7 rate loan, and then lend those funds to the regulated public service company at a
8 marked-up interest rate. This inflates the regulated public service company's cost of
9 debt with no corresponding benefit to the regulated company or to regulated
10 ratepayers.

11 Obviously, Staff holds serious concerns over such an arrangement and
12 recommends the Commission disallow any such proposal. If allowed, affiliates
13 would have precedent to charge their regulated counter-parts interest rates above
14 market and cost to the affiliate. The Company proposes to include in rates a cost of
15 debt higher than the actual cost to borrow directly from Union Bank.

16
17 **H. R-10, Allocation of Average Investment to Non-regulated Operations**

18
19 **Q. Please summarize Staff's recommendation relating to R-10 for the allocation of**
20 **average investment to non-regulated operations.**

21 A. Staff proposes to allocate a portion of WCI's average net investment to non-
22 regulated operations. Staff's adjustment decreases average net investment by
23 approximately \$119,000 and decreases revenue requirement by \$17,000.

1 **Q. What is the regulatory basis for Staff's recommendation?**

2 A. Staff's recommendation follows the fundamental accounting guidelines that if costs
3 cannot be directly assigned, they should be allocated based on a reasonable cost
4 driver and supported in the general rate case.

5
6 **Q. Please explain why Staff's adjustment is appropriate.**

7 A. Staff allocated a portion of average net investment to non-regulated operation
8 because WCI had allocated a portion of depreciation expense but not the related
9 average net investment. Staff allocated a portion of average investment to non-
10 regulated operations using the same allocating factors used to allocate depreciation
11 expense to non-regulated operations.⁵⁵ The allocated portion of average investment
12 allocated to non-regulated operation should not be used to calculate a revenue
13 requirement or calculate rates for regulated ratepayers.

14
15 **Q. Please briefly explain Staff's interpretation of the Company's adjustment.**

16 A. WCI did not propose an adjustment to Average Investment. The Company attributed
17 all average net investment to its regulated operations and none to its non-regulated
18 operations

19

⁵⁵ Staff allocated depreciation expense for Trucks, Service Cars, Shop, Office Furniture and Fixtures, and Leasehold Improvements using customer counts. Staff allocated Containers and Cart depreciation using pickups.

1 **I. RC-1, Remove Non-Regulated City of Kalama Operations**

2

3 **Q. Please summarize Staff's recommendation regarding RC-1 to remove non-**
4 **regulated City of Kalama operations.**

5 A. Staff adjusted the allocation factors for customer count and pickups to reflect billing
6 information provided by City of Kalama. Additionally, Staff did not use route hours
7 as an allocation factor because it is unsupported. Staff's adjustment increases net
8 operating income by approximately \$119,000 and decreases revenue requirement by
9 \$127,000.

10

11 **Q. Why did Staff determine that WCI's route allocation was unsupported?**

12 A. Based on WCI's narrative in JD-11 regarding the service levels of the City of
13 Kalama and the Company's responses to formal Data Request 3 and 11, Staff is
14 confused by what route hours associated with what service levels are included in the
15 spreadsheet⁵⁶. Additionally, the route study only includes one week of data to
16 allocate test year expenses.⁵⁷

17

18 **Q. Please briefly explain Staff's interpretation of the Company's adjustment.**

19 A. WCI proposes to allocate expenses that cannot be directly attributed to regulated and
20 non-regulated operations based on customer count, pickups, revenue, and route
21 hours. However, WCI's Exhibits JW-1T, JD-1T, and JD-11T do not address these
22 allocation factors.

⁵⁶ File "DR 3 and DR 4 - TG-140560WCI Operations 052214.xls," tab "WP-17 Study."

⁵⁷ Route Study: July 9-13, 2012.

1 **Q. Why is Staff's recommended adjustment different from WCI's proposal?**

2 A. Staff used information provided by the City of Kalama, rather than the Company, to
3 calculate the allocation factors for Customer Count and Pickups.

4
5 **Q. Why did Staff rely on information provided by the City of Kalama rather than**
6 **WCI?**

7 A. Staff has reviewed WCI's narrative in five versions of its pro forma results of
8 operation workbooks, WCI's responses to formal Data Requests 3 and 4, and the
9 City of Kalama's response to a public records request. Staff discovered
10 inconsistencies regarding the Company's attempts to define the City of Kalama
11 operations and therefore cannot rely on its information.

12
13 **Q. Please describe the inconsistencies that forced Staff to seek information from**
14 **the City of Kalama.**

15 A. The 1st version⁵⁸, 2nd version⁵⁹, and 3rd version⁶⁰ of WCI's pro forma workbooks all
16 contain the same following information provided by the Company:

- 17 • That there is no non-regulated disposal tons.⁶¹
18 • Provided a calculation to remove 594.66 City of Kalama residential
19 customers tons.⁶²

⁵⁸ File "TG-140560 Waste Control_#4824845-v2-Exhibit_JD-11_(4_3_14).XLS," provided April 3, 2014, initial filing.

⁵⁹ File "WCI Operations 050114.xls," provided May 2, 2014, Company response to informal Data Request 1.

⁶⁰ File "TG-140560 WCI Operations 050114 050914.xls," provided on May 9, 2014, Company's 1st response to formal Data Request 11.

⁶¹ Tab "WP-16 Disposal," cells A19 and A20.

⁶² Tab "WP-16 Disposal," cell L36.

1 • Provided a route study that Staff interprets to say the City of Kalama includes
2 789 residential pickups.⁶³

3 • Calculates the customer count allocation factor to include 789 residential
4 customers.⁶⁴

5 The 4th version⁶⁵ pro forma workbook contains the following information provided
6 by the Company:

7 • The City of Kalama uses 32, 60, and 90 gallon carts for residential and
8 commercial customers.⁶⁶

9 • Provided a calculation to remove 594.66 City of Kalama residential
10 customers tons.⁶⁷

11 • Provided a route study that Staff interprets it to say the City of Kalama
12 includes 789 residential pickups.⁶⁸

13 • Calculates the customer count allocation factor to include 789 residential
14 customers.⁶⁹

15 The 5th version⁷⁰ pro forma workbook contains the following information provided
16 by the Company:

17 • The City of Kalama uses 32, 60, and 90 gallon carts for residential and
18 commercial customers.⁷¹

⁶³ Tab "WP-17 Study," cells C24, D25, and I25.

⁶⁴ Tab "WP-8 – Cust Counts (x per wk)," cell L110.

⁶⁵ File "TG-140560 WCI Operations 050114 050914 051314.xls," provided May 13, 2014, Company's 2nd response to formal Data Request 11.

⁶⁶ Tab "Sch 3 – Reclass Exp," cell B9.

⁶⁷ Tab "WP-16 Disposal," cell L36.

⁶⁸ Tab "WP-17 Study," cells C24, D25, and I25.

⁶⁹ Tab "WP-8 – Cust Counts (x per wk)," cell L110.

⁷⁰ File "DR 3 and DR 4 - TG-140560WCI Operations 052214.xls," provided May 23, 2014, Company response to formal Data Requests 3, 4, 9.

- 1 • Provided a calculation and statement to remove 594.66 City of Kalama
2 residential customers tons.⁷²
- 3 • Provided a calculation and statement to remove an additional 343 tons for the
4 City of Kalama commercial customers.⁷³
- 5 • Provided a route study that Staff interprets to say the City of Kalama includes
6 789 residential cart pickups.⁷⁴
- 7 • Provided a route study that Staff interprets it to say the City of Kalama
8 includes 33 commercial cart pickups.⁷⁵
- 9 • Calculates the customer count allocation factor to include 642 residential
10 customers, 38 commercial container customers, and 147 commercial cart
11 customers.⁷⁶

12

13 **Q. How has WCI historically reported Kalama operations to the Commission?**

14 A. WCI's previous reporting is also inconsistent, further indicating that Staff cannot
15 rely on the Company's information. In the 2011 Annual Report, Schedule 6, City
16 Contracts, the Company reported that it had a contract with the City of Kalama for
17 residential and commercial garbage.⁷⁷ In the 2012 and 2013 Annual Reports,
18 Schedule 6, City Contracts, the Company reported that it had a contract with the City

⁷¹ Tab "Sch 3 – Reclass Exp," cell B9.

⁷² Tab "WP-16 Disposal," cell O14, A28, and D89.

⁷³ Tab "WP-16 Disposal," cell O15 and A30.

⁷⁴ Tab "WP-17 Study," cells C24, D25, I25, M25.

⁷⁵ Tab "WP-17 Study," cells M25, K37, and K40.

⁷⁶ Tab "WP-8 – Cust Counts (x per wk)," cell L110.

⁷⁷ 2011 Annual Report Contact: Chris Flynn, Company Accountant.

1 of Kalama that covers only residential garbage.⁷⁸ It appears that WCI defines its
2 2012 contract operations to only include residential customers.

3
4 **Q. Please explain Staff's contact with the City of Kalama and the information Staff**
5 **requested.**

6 A. Staff contacted the City of Kalama (the City) to verify customer classification,
7 counts, and contract revenue reported. Staff requested garbage collection billing
8 information and contract payments made to WCI. The request included a customer
9 list by address that includes detail regarding number of pickups per week, customer
10 class (residential, multi-family, and commercial), and cart and container sizes. The
11 City of Kalama provided data for 2012 and part of 2013 that showed that the contract
12 services include both residential and commercial customers.

13
14 **Q. What is the regulatory basis for Staff's recommendation?**

15 A. Staff follows the accounting guidelines that expenses should be directly assigned
16 whenever possible. If costs cannot be directly assigned, they should be allocated
17 based on reasonable cost drivers and supported in the general rate case.

18
19 **Q. Please explain why Staff's adjustment is appropriate.**

20 A. Staff has repeatedly asked to the Company to define its non-regulated operations.⁷⁹
21 The Company's responses are either non-responsive or incomplete. The information
22 provided by the City of Kalama, on May 27, 2014, is consistent with the written

⁷⁸ 2012 Annual Report Contact: Chris Flynn, Company Accountant.

⁷⁹ Staff informal Data Request 1, formal Data Requests 3, 4, and 11.

1 contract⁸⁰, easy to follow, and inconsistent with the series of data variations the
2 Company provided over the course of dockets TG-131794 and TG-140560 (from
3 September 23, 2014, to the present).

4 Staff used information, provided by the City of Kalama, to demonstrate,
5 support, and calculate the allocating factors for Customer Counts and Pickups, and
6 removed the Company's unsupported allocation factor Route Hours. Staff then
7 assigned its supported allocating factor to expense accounts in the Company's results
8 of operation based on applicable cost drivers for each expense that is allocated
9 between regulated and non-regulated activity.

10
11 **J. Adjustment R-C-1A, Remove City of Kalama Disposal Fees**

12
13 **Q. Please summarize Staff's recommendation for Adjustment R-C-1A regarding**
14 **the removal of City of Kalama disposal fees.**

15 A. Staff proposes an adjustment to remove additional non-regulated disposal fees based
16 on calculated tons using the information provided by the City of Kalama for
17 residential and commercial customers. Staff calculates 13,893 regulated disposal
18 tons. Staff's adjustment increases net operating income by approximately \$23,000
19 and decreases revenue requirement by \$25,000.

20

⁸⁰ Exhibit No. ____ MC-9.

1 **Q. Please briefly explain Staff's interpretation of the Company's adjustment.**

2 A. WCI proposes an adjustment to remove non-regulated disposal fees. WCI calculated
3 14,523 regulated disposal tons. However, WCI's Exhibits JW-1T, JD-1T and JD-
4 11T do not address this adjustment.

5
6 **Q. Why is Staff's recommended adjustment different than WCI's proposal?**

7 A. For the reasons explained on pages 37 through 40 of my testimony, Staff could not
8 rely on the information WCI provided for its City of Kalama operations.
9 Consequently, Staff contacted the City of Kalama to obtain consistent and accurate
10 information.

11
12 **Q. Did Staff discover additional information indicating that WCI's allocation of
13 non-regulated disposal fees was inaccurate?**

14 A. Yes. WCI's calculation allocates 10 percent of total commercial tons to non-
15 regulated operations based on a ratio of number of non-regulated route stops to total
16 stop times.⁸¹ Disposal fees allocated based on the number route stops do not closely
17 approximate the tonnage generated by a customer. This is because the number of
18 route stops does not approximate or reflect the customers' respective container or
19 cart size. Therefore, route stops based on time are not a reasonable cost driver for
20 disposal fees.

⁸¹ Per Company Narrative Responses to Staff formal Data Request 4: "Please see the updated "Disposal" work paper in the revised operations statement for the breakdown of this amalgamated information which was compiled by Chris Flynn using the disposal tickets as his resource for those computations because that information was not compiled in the ordinary course of business. In order to derive commercial tonnage calculations, we applied a ratio of total pickups performed by Jeff Sugg to the number of nonregulated hauls to arrive at a total disposal commercial tonnage amount."

1 **Q. Please explain why Staff's adjustment is appropriate.**

2 A. Staff's calculation⁸² allocates disposal fees based on container and cart weights,
3 which are the most appropriate cost drivers for allocating disposal fees. The
4 calculation aligns the customer count, pickup frequencies, and container or cart size
5 to the disposal fee expense booked during the test year. Additionally, Staff used the
6 supported customer information provided by the City of Kalama to remove non-
7 regulated disposal tons.

8

9 **VI. PRO FORMA ADJUSTMENTS**

10

11 **A. Adjustment P-1A, Payroll Increase**

12

13 **Q. Please summarize Staff's recommendation for pro forma adjustment P-1A**
14 **relating to payroll increases.**

15 A. Staff proposes to remove WCI's proposed increase to medical insurance and
16 decrease the period expense to reflect known and measurable costs based on April
17 2014 medical and dental invoices. Staff's adjustment increases net operating income
18 by approximately \$28,000 and decreases revenue requirement by \$30,000.

19

20 **Q. Please briefly explain Staff's interpretation of the Company's adjustment.**

21 A. WCI proposes an adjustment to reflect payroll increases, benefit accruals and
22 increases in medical insurance, employment security and Labor & Industries

⁸² Exhibit No. ____ MC-10.

1 rates/premiums as of June 30, 2013, and an approximate 10 percent increase in the
2 management fee paid to affiliate Waste Control Equipment.⁸³

3
4 **Q. What is the regulatory basis for Staff's recommendation?**

5 A. Under WAC 480-07-520(4)(a)(ii), a pro forma adjustment should reflect only known
6 and measurable changes. Guesses and management estimates, by themselves, are
7 not sufficiently known and measurable.

8 The pro forma adjustment proposed by the Company does not give effect to
9 the test period for all known and measurable changes. Staff removed the adjustment
10 for medical insurance premiums and added a supported pro forma adjustment
11 decrease that gives effect for known and measurable changes.

12
13 **Q. What did Staff consider in evaluating its adjustment?**

14 A. Staff relied on an April 2014 billing invoice, which includes the actual expenses paid
15 by WCI for medical insurance. Staff's position is that a recent invoice documenting
16 actual expenses is sufficiently known and measurable to include in rates.

17
18 **Q. Did Staff request information from WCI to support the Company's proposed
19 adjustment to reflect increased medical insurance costs?**

20 A. Yes. Staff requested support⁸⁴ for the Company's medical insurance pro forma
21 adjustment based on management's best estimate of a reasonable two year increase
22 in premiums. WCI responded to Staff formal Data Request No. 10(b) with an April

⁸³ Ex. No. JD-11T at 10:9-13.

⁸⁴ Staff formal Data Request No. 10(b) and formal Data Request No. 13-4(b).

1 2014 group medical invoice, an April 2014 dental invoice, and an Excel workbook⁸⁵.
2 The Company's response demonstrated a current actual monthly expense of
3 \$7,219.82⁸⁶, which is less than the Company's proposed monthly expense of
4 \$10,509.60⁸⁷. Therefore, the Company's response did not support its proposed pro
5 forma adjustment. Staff relied on the actual April 2014 invoices provided by WCI
6 rather than the Company's proposed pro forma adjustment.

7 WCI responded to Staff formal Date Request No. 13-4(b) with a narrative
8 stating that the test year expense includes an \$8,800 annual plan administrative fee,
9 but did not provide any supporting documentation. On July 15, 2014⁸⁸, WCI
10 provided supporting documentation for the \$8,800 annual plan administrative fee.
11 Staff included the fee in its adjustment.

12 Therefore, based on the supporting data provided by the Company, Staff
13 proposes a pro forma adjustment to remove WCI's adjustment and further reduce the
14 test year expense for known and measureable decreases to medical insurance
15 premiums based on the April 2014 billing.

16
17 **B. Adjustment P-2 and P-3, Rate Case Expense and Amortized Rate Case**
18 **Expense**

19
20 **Q. Please summarize Staff's recommendation for pro forma adjustment P-2 and P-**
21 **3 relating to rate case expenses and rate case amortization.**

⁸⁵ File "DR 10 WCI Activity Payroll and Medical April 2014.xlsx."

⁸⁶ Exhibit No. _____ MC-2, Schedule 5, P-1A.

⁸⁷ File "Staff WCI Operations 052214.xlsx," tab "WP-3, pg. 3 – Benefits Analysis," cell G50.

⁸⁸ The Company response is a follow-up to the Discovery Conference on July 11, 2014.

1 A. Staff recommends that the Commission allow 100 percent of the rate case expenses
2 incurred prior to the Notice of Prehearing Conference issued in docket TG-131794,
3 50 percent of rate case expenses incurred after the Notice of Prehearing Conference
4 issued in docket TG-131794, and 50 percent of rate case expenses incurred in docket
5 TG-140560, all amortized over five years. Staff's adjustment increases net operating
6 income by approximately \$13,000 and decreases revenue requirement by \$14,000.⁸⁹

7
8 **Q. What is the regulatory basis for Staff's recommendation?**

9 A. Rates should reflect prudent and recurring expenses incurred by a regulated
10 company. Test year expenses used for rate setting should reflect the prudent
11 expenses incurred by a regulated company in a typical year. Non-recurring expenses
12 are, by definition, rare and atypical.

13 While rate case expenses are recurring, they typically are not incurred every
14 year. Staff's adjustment normalizes the accounting and legal expenses related to
15 general rate case expenses and normal operations. This smoothing treatment
16 normalizes rare and atypical general rate case expenses while allowing for a
17 reasonable recovery of accounting and legal expenses.

18
19 **Q. What did Staff consider in evaluating its adjustment?**

20 A. Staff calculated an approximate 4.5 years between the filing dates for WCI's TG-
21 091653 (WCI's last rate case that resulted in permanent rates) and TG-140560
22 (WCI's current rate case that will result in rates). Additionally, Staff calculated 5.2

⁸⁹ Exhibit No. ____ (MC-6), Schedule 5.

1 years between the effective dates for WCI's TG-091653 and the statutory effective
2 date for WCI's TG-140560. Therefore, Staff's recommended 5-year amortization
3 period reflects WCI's historical filing pattern.
4

5 **Q. How did Staff evaluate WCI's rate case expenses associated with the**
6 **Company's previous general rate filing in docket TG-131794?**

7 A. For TG-131794, the process was complicated for reasons set forth in my testimony
8 in Section II Background at P2, L18. The Administrative Law Judge dismissed the
9 case filed in docket TG-131794 for WCI's "failure to file a direct case that provides
10 full support for its rate request."⁹⁰ Staff does not believe it is reasonable for rate
11 payers to pay all of the expenses incurred in this failed rate case. However, Staff
12 recognizes that some of the work performed in this case was useful in filing a second
13 case in docket TG-140560. In an effort to balance ratepayer interests with the
14 Company's need for professional assistance in filing a rate case, Staff recommends
15 the Commission allow 100 percent of the rate case expense incurred prior to the
16 Notice of Prehearing Conference issued in docket TG-131794, 50 percent of rate
17 case expenses incurred after the Notice of Prehearing Conference issued in docket
18 TG-131794, and amortize them over five years. Staff's recommendation distributes
19 the costs of the failed rate case equally between ratepayers and shareholders.
20

⁹⁰ Utilities & Transp. Comm'n v. Waste Control, Inc., Docket TG-131794, Order 05, Initial Order Granting Motion to Dismiss and Rejecting Tariff Filing, March 25, 2014, at 8.

1 **Q. How does Staff recommend the Commission treat WCI's rate case expenses**
2 **associated with the present filing, docket TG-140560?**

3 A. For docket TG-140560, the case is extremely complicated for reasons set forth in my
4 testimony in Section II Background at P2, L18. Considering the unduly complex
5 nature of the filing, its basis on a previously dismissed case, the contested issues, and
6 the order to compel the Company to respond to data requests, Staff does not believe
7 it is reasonable for ratepayers to pay all of the expenses in this case. Staff
8 recommends that, for rate making purposes, the Commission allow 50 percent of the
9 rate case expenses WCI incurred in this case and amortize them over five years.
10 Staff's recommendation distributes the expenses of the rate case equally between
11 shareholders and ratepayers.

12
13 **Q. Please briefly explain Staff's interpretation of the Company's adjustment.**

14 A. WCI proposes an adjustment to recover all expenses associated with dismissed case
15 TG-131794⁹¹ and current case TG-140560 and then amortize the expense over 4
16 years. However, Exhibits JW-1T, JD-1T and JD-11T do not address this adjustment.

17

18 **C. Adjustment P-4, Fuel**

19

20 **Q. Please summarize Staff's recommendation regarding pro forma adjustment P-4**
21 **for fuel expense.**

⁹¹ Id.

1 A. Staff proposes to adjust fuel expense to reflect the most recent 12-month period,
2 ending April 30, 2014. Additionally, Staff removed the hardcoded fuel expense
3 related to “Actual Misc Shop” from the pro forma adjustment.⁹² The Company
4 stated, on July 14, 2014⁹³, that the “Actual Misc Shop” is related to miscellaneous
5 shop supplies. Because the miscellaneous shop supplies are not fuel costs, Staff
6 removed it from the pro forma fuel increase. Staff’s adjustment increases net
7 operating income by approximately \$6,000 and decreases revenue requirement by
8 \$7,000.

9

10 **Q. Please briefly explain Staff’s interpretation of the Company’s adjustment.**

11 A. In response to Staff Formal Data Request 9, WCI proposes to increase fuel expense
12 to reflect the most recent 12-month period, and increases in Actual Misc Shop”
13 supplies expense. Exhibits JW-1T, JD-1T and JD-11T do not address this
14 adjustment.

⁹² Staff Formal Data Request 9 asked the Company to provide the actual total fuel expense and actual total gallons purchased for the 12-months ending March 31, 2014, and for the test year. WCI’s response did include actual fuel expense and actual fuel gallons purchased for the 12-months ending March 31, 2014. However, the Company included “Actual Misc Shop” fuel expense. Furthermore, this is a hardcoded value that requires support by a calculation.

⁹³ The Company response is a follow-up to the Discovery Conference on July 11, 2014.

1 **Q. What is the regulatory basis for Staff's recommendation?**

2 A. Per WAC 480-70-346, "A Company filing a rate change based on changes in general
3 operating expenses must update the test period fuel costs using actual fuel costs for
4 the most recent twelve-month period."

5
6 **Q. Please explain why Staff's adjustment is appropriate.**

7 A. Staff's adjustment complies with WAC 480-70-36 and reflects fuel costs for the
8 most recent twelve-month period.

9
10 **D. Adjustment P-5 A, Disposal Increase – Residential and Commercial**

11
12 **Q. Please summarize Staff's recommendation regarding pro forma adjustment P-5
13 A relating to disposal fee increases.**

14 A. Staff removed an additional portion of disposal fee increase related to the City of
15 Kalama operations. WCI calculated 14,523 regulated tons. Staff calculated 13,893
16 regulated tons. The net of Staff's adjustment increases net operating income by
17 approximately \$7,000 and decreases revenue requirement by \$7,000.

18
19 **Q. Please briefly explain Staff's interpretation of the Company's adjustment.**

20 A. WCI proposes an adjustment to increase regulated residential and commercial
21 services disposal fees by \$11.70 per ton based on the Company's calculation of
22 regulated tons. However, Exhibits JW-1T, JD-1T and JD-11T do not address this
23 adjustment.

1 **Q. What is the regulatory basis for Staff's recommendation?**

2 A. Staff follows the accounting guidelines that expenses should be directly assigned
3 whenever possible. If costs cannot be directly assigned, they should be allocated
4 based on a reasonable cost driver and supported in the general rate case. Staff's
5 allocation aligns the increased disposal expense with the appropriate cost drivers:
6 customer count, pickup frequencies, and container or cart size.⁹⁴

7
8 **Q. Please explain why Staff's adjustment is appropriate.**

9 A. As described in V.I. and V.J of my testimony above, WCI did not provide consistent
10 and reliable information for its regulated City of Kalama operations. WCI's disposal
11 tonnage is not accurate or adequately supported and Staff reasonably relied on
12 information from the City of Kalama to calculate accurate tonnages. Because
13 WCI's regulated disposal calculation includes an allocation based on route stops.
14 Therefore; Staff has calculated regulated disposal expense with the appropriate cost
15 drivers: customer count, pickup frequencies, and container or cart size.

16

17

VII. REMAINING ISSUES

18

19 **Q. Do you have any remaining recommendation in this proceeding?**

20 A. Yes. There are three:

- 21 • Temporary Rates related to disposal fees
- 22 • Cost of Investigation Fees Assessed to WCI

⁹⁴ Pg 26:7 through 28:7

- 1 • Staff's Communication with WCI

2

3 **A. Temporary Rates related to disposal fees, Suspended Tariff 15**

4

5 **Q. Please provide background on the temporary rate.**

6 A. Effective December 1, 2013, the Commission suspended Tariff 15, and allowed

7 temporary rates related to the disposal fees, to become effective on a temporary

8 basis, subject to refund. The revenue impact of the disposal fee increase is

9 approximately \$176,000 (4.9 percent) additional annual revenue.⁹⁵

10 Effective March 25, 2014, docket TG-131794 was dismissed. However, WCI was

11 not required to refund the temporary disposal fees so long as⁹⁶:

- 12 • Waste Control re-files its rate request within ten business days of the
- 13 effective date of this Order, and
- 14 • The new filing, with its new docket number and new statutory effective date,
- 15 contains the same disposal fee rate increase that was allowed to become
- 16 effective as of December 1, 2013.

17

18 **Q. What did the Company file in docket TG-140560?**

19 A. On April 3, 2014, WCI filed "TG-140560 Waste Control_#4824845-v2-Exhibit_JD-

20 11_(4_3_14).XLS." The file included a pro forma disposal fee increase adjustment

⁹⁵ Docket TG-131794, Waste Control, Inc., Complaint and Order Suspending Tariff; and Allowing Rates on a Temporary Basis, Subject to Refund, dated November 27, 2013.

⁹⁶ Docket TG-131794, Waste Control, Inc., Initial Order Granting Motion to Dismiss and Rejecting Tariff Filing, dated March 25, 2014.

1 that increases annual revenues by approximately \$173,000.⁹⁷ Additionally, WCI's
2 Price Out does not include rates from suspended Tariff 15 that were allowed on a
3 temporary basis, subject to refund.
4

5 **Q. What is Staff's calculated disposal fee increase?**

6 A. Staff calculated an approximate \$163,000 increase for regulated disposal fees.
7 Exhibit No. ___ MC-6, Schedule 5, P-5A and Exhibit No. ___ MC-10 show staff's
8 regulated disposal fee increase and disposal tons, respectively.
9

10 **Q. Has Staff calculated a refund?**

11 A. Yes. The Commission allowed temporary rates, in suspended Tariff 15, generates
12 approximately \$176,000 additional annual revenue. Staff's recommended revenue
13 requirement generates approximately \$132,000 additional annual revenue, \$44,000
14 less than the temporary rates annual revenue. Thus, the Commission should order a
15 refund commensurate with the period that temporary rates have been in effect,
16 December 1, 2014, to the present.
17

18 **B. Cost of Investigation Assessed Against WCI**
19

20 **Q. Please provide Staff's recommendation for assessing investigation fees on WCI.**

21 A. Staff recommends that the Commission bill WCI for \$43,818.82 of costs incurred by
22 the Commission for Staff's investigation as it relates to dockets TG-131794 and TG-

⁹⁷ File "TG-140560 Waste Control_#4824845-v2-Exhibit_JD-11_(4_3_14).XLS," tab "Sch 2 – Forecast Exp," cell D25.

1 140560. Furthermore, Staff recommends that those costs not be recovered through
2 ratepayers.

3
4 **Q. What is the regulatory basis for Staff's recommendation?**

5 A. Under RCW 81.20.020, the Commission can require a public service company that is
6 subject to an investigation to pay the Commission's investigation costs. RCW
7 81.20.020 is only available if the Commission's investigation costs are greater than
8 the amount of the public service company's annual regulatory fee. The Commission
9 may require a public service company to pay up to one-percent of that company's
10 gross intrastate operating revenues from the preceding calendar year.

11
12 **Q. Please explain Staff's calculation of assessed investigation fees.**

13 A. Staff's investigation of docket TG-131794 cost \$60,020 and the investigation of TG-
14 140560 cost \$24,285, through June 2014, for a total cost of \$84,305. WCI's 2013
15 gross intrastate operating revenue is \$4,381,882.25, and WCI's 2013 Annual Report
16 indicates the Company paid a regulatory fee of \$18,732.55. Staff's investigation
17 costs are greater than WCI's annual regulatory fee. Therefore, the Commission
18 should assess Staff's investigation costs up to the maximum one-percent of WCI's
19 2013 gross intrastate operating revenue, for a total assessment of \$43,818.82.

20
21 **Q. Why is Staff recommending an assessed investigation fee on WCI?**

22 A. WCI filed extremely complicated rate cases that required significantly more
23 resources than normal to review. Docket TG-140560 incorporates the Company's

1 tariff request, testimony, and work papers from a previous general rate filing in
2 docket TG-131794, which was dismissed. In the best circumstances Docket TG-
3 140560 is complicated, but as a result of multiple sets of testimony, multiple and
4 duplicate workbooks, and WCI's refusal to respond to Staff's data requests, the
5 docket was particularly convoluted. This exacerbated complexity and created
6 confusion that led to Staff's motion to compel as well as the Commission's
7 subsequent order affirming application of Commission rule WAC 480-07-140(6)(b)
8 to solid waste rate case filings, compelling the company to respond to Staff's data
9 requests, and ordering both parties to participate in a discovery conference. Staff
10 has examined multiple and overlapping revenue requirements, financial statements,
11 testimony, and work papers. Therefore, Staff recommends the Commission impose
12 the maximum allowable investigation costs calculated above.

13
14 **C. Staff Communication with WCI**

15
16 **Q. Has the complexity surrounding dockets TG-140560 and TG-131794 impacted**
17 **communications between Staff and WCI?**

18 A. Unfortunately, yes. The nature of WCI's combined filing, multiple sets of
19 testimony, multiple and duplicate workbooks, and WCI's refusal to respond to
20 Staff's data requests dramatically increased the complexity and duration of Staff's
21 analysis, which slowed communications between the parties. Multiple sets of
22 testimony, workbooks, and financial data created a very complex and extensive
23 record. Certain data was inconsistent or overlapping, further complicating the

1 analysis. Most instances of Staff's silence or limited responses to the Company
2 simply reflected an ongoing analysis or confusion in sorting through the data. It is
3 extremely difficult for Staff to initiate or respond to communications when it has not
4 developed a basic understanding of the materials and data involved in the general
5 rate filing.

6
7 **Q. Has Staff generally been responsive to WCI over the course of dockets TG-**
8 **131794 and TG-140560?**

9 A. Staff acknowledges limited or absent responses at times over the course of the past
10 10 months, but believes it has largely been responsive and helpful to the Company
11 throughout its two filings. Staff notes that the parties have voluntarily engaged in
12 hundreds of conversations dating back to WCI's initial filing in September 2013.

13 As WCI previously pointed out and Staff acknowledges, Staff was largely
14 non-responsive during the last few weeks in May 2014. At that time, Staff was
15 conducting its analysis of the extensive records in TG-131794 and TG-140560.
16 Moreover, Staff's then-counsel suddenly could not continue representation due to
17 unforeseen circumstances.

18 The complexity of this filing coupled with the absence of counsel in a formal
19 proceeding resulted in Staff's inability to respond to the Company during that period.
20 Staff acknowledges the lack of communication in May likely exacerbated disputes
21 between the parties, but maintains that it has undertaken a genuine effort to answer
22 appropriate questions and cooperate with the Company for the majority of WCI's
23 two filings dating back to September 2013.

1 Q. Does this conclude your testimony?

2 A. Yes.