



**King County**  
**Solid Waste Division**  
 Department of Public Works  
 Yealer Building  
 400 Yealer Way, Room 600  
 Seattle, WA 98104-2637  
 (206) 296-6542

Post-It™ brand fax transmittal memo 7671 # of pages > 2

To	STEVE McClellan	From	SUSAN GULICK
Co.	WUTC	Co.	KCSWD
Dept.		Phone #	(206) 296-8458
Fax #	(360) 753-2629	Fax #	(206) 296-0197

**RECEIVED BY FAX ON 4/14/95 TG-940411**  
**HARD COPIES RECEIVED 4/18/95**

April 14, 1995

Steve McClellan  
 Secretary  
 Washington Utilities and Transportation Commission  
 Post Office Box 47250  
 1300 South Evergreen Park Drive SW  
 Olympia, WA 98504-7250

RECEIVED  
 RECORDS MANAGEMENT  
 95 APR 14 PM 3:28  
 STATE OF WASH.  
 UTIL AND TRANSP  
 COMMISSION

Dear Mr. McClellan:

The purpose of this letter is to respond to Washington Utilities and Transportation Commission (WUTC) staff's settlement proposal for the Eastside Disposal case. The discussions between our staff have been very useful and productive. We have made considerable progress towards trying to develop a mutually agreeable settlement of the issues.

First I would like to summarize our discussions to date, identifying the points in which we are in agreement. I'll conclude by explaining our views of the last area of disagreement between our proposals.

**BACKGROUND**

From the beginning of our discussions we feel we have made some important concessions so we could move forward on a settlement:

- We have agreed to work with the WUTC's cost of service model. We have not asked the WUTC to develop a separate model to set rates in King County. All of the alternatives/solutions we have discussed can all be implemented within the WUTC's current model.
- In all of our discussions and settlement proposals we have not tried to force a resolution to the questions regarding WUTC responsibilities in implementing state law. Specifically, we have not addressed RCW 81.77 which requires the WUTC to set rates that meet the requirements of local comprehensive plans and implementation ordinances. We feel we have been more concerned about developing solutions that will work for both the WUTC and King County without trying to resolve the legal responsibilities outlined in state law.



Steve McClellan  
April 14, 1995  
Page Two

### KING COUNTY'S PROPOSAL

As a result of our discussions we submitted a draft settlement proposal for WUTC consideration on March 15, 1995. The settlement proposed that the cost of service model allocate garbage collection costs on a per gallon basis, rather than the current allocation methods that rely more on estimated can weights. Our discussions also concluded that the market prices for recyclables needed to be addressed regularly in setting the rate for recycling services. The proposal also outlined the actions to be taken by the WUTC, Rabanco, and King County to affect these changes:

- The WUTC would require all haulers serving unincorporated King County to set garbage rates that allocate costs on a per gallon basis to customers;
- The WUTC would work with King County and the haulers to develop a process for periodically adjusting recycling rates to ensure that current market prices are reflected in a customer's recycling charge;
- Rabanco would file garbage rates using the per gallon allocation cost of service model for all three companies (Eastside, SeaTac, Kent-Meridian Valley) serving unincorporated King County;
- Rabanco would file recycling rates that are based on current market prices;
- King County would propose changes to its service level ordinance to the County Council that would require all haulers to use the per gallon method, and to file new recycling rates on a regular basis to reflect current material market prices.

### WUTC'S COUNTERPROPOSAL

WUTC staff discussed this matter with the Commissioners in March and have developed a counterproposal. WUTC's counterproposal conceded that some costs could be allocated on a per gallon (volume) basis, but proposed an alternative to distributing fixed overhead costs and disposal costs.

- Disposal fees, which constitute approximately 50 per cent of total expenses, would continue to be allocated by weight to each customer service level;
- Expenses other than disposal fees, which represent approximately 40 percent of total expenses, would be allocated by volume (per gallon) basis;

Steve McClellan

April 14, 1995

Page Three

- Overhead expenses, which are approximately 10 percent of total expenses, would be allocated pursuant to a weighted customer charge;
- The haulers would be required to make an adjustment to recycling charges, based on current market prices, every time they file a request for a rate change.

We agree with the last two proposals regarding the overhead expenses and the recycling rate requirements. However, we still propose that all remaining costs be allocated on a volume basis, not just 40 percent of the costs. The only remaining issue for us to resolve is how to allocate the disposal fee costs.

#### REMAINING ISSUE

We feel that allocating disposal fees by volume is a fair, just, and reasonable way to set garbage rates. The disposal fees would be allocated to customers based on the amount of disposal capacity purchased. Our reasons for preferring the volume based rates are summarized below.

- The current weight-based method for allocating these costs does not fairly distribute the disposal fees to customers. For example, if the model assumes the weight of two cans is 1.5 times the weight of one can, and a customer only fills one and a quarter cans, they are paying more than their fair share of the disposal fees because they are paying for 1.5 cans. Conversely, if the two can customer fills their two cans, they are not paying the full costs of disposal because they are only charged for putting out 1.50 cans.
- The can weights may or may not actually reflect actual weight of the cans set out at the curb. But because of the way the disposal fees are allocated, the one can customer, pound for pound, pays more than the three can customer.
- It is our understanding that the model does not actually allocate disposal costs to the actual average weight of each customer class. The relative relationship between the service levels is used to allocate the disposal fees. For example, if the two can weight is estimated to be 20 percent more than the one can weight, costs are allocated that way, even though the two can customer can throw out twice the amount of garbage. Therefore, the model distributes costs on a percentage basis and are not true cost-based rates.
- The WUTC's own calculations show that the actual disposal fees paid do not coincide with the expected disposal fees, based on the weights used in the model. In order to allocate the disposal fees, the WUTC "trues-up" the actual and expected disposal fees. In short, allocating costs on a weight basis does not appear to be a good estimate of actual disposal by each customer class.

Steve McClellan

April 14, 1995

Page Four

In short, allocating disposal fees on a volume basis is fair to the customer. When they purchase two can service, they are purchasing the ability to throw away two cans full of garbage each week. They are paying for that capacity, whether they use it or not.

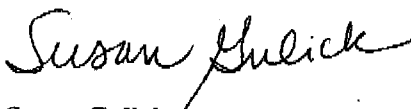
#### CONCLUSION

In order to move forward with a settlement, we need the WUTC to explain why allocating disposal costs to average weights of cans is preferable to allocating disposal costs to the gallons of disposal service purchased. We also need to understand why the weight based method is more equitable and reasonable to the customer. We would also like to know if you have further refinements to allocating the costs that may bring us closer to an agreement (e.g., can a greater percentage of the disposal fees be allocated on a per gallon basis?).

We had hoped to reach a mutually agreeable settlement before briefs needed to be filed for the Eastside case. Since a settlement has not been reached, we filed our brief on April 13, 1995. Hopefully, this matter can be resolved before counsel for the Rabanco Companies and the Attorney General's office briefs need to be filed May 3, 1995, and certainly before the June 1, 1995 hearing date.

I look forward to hearing from you soon. Please call me at (206) 296-8458 if you have any questions. Thank you.

Sincerely,



Susan Gulick  
Manager, Waste Reduction and Recycling

SG:sm  
ap:settle3.let

cc: Eugene Eckhardt, Washington Utilities and Transportation Commission  
Rod Hansen, Manager, Solid Waste Division  
Kathryn Killinger, Office of the Prosecuting Attorney  
Jeff Gaisford, Program Supervisor



**King County  
Solid Waste Division**

Department of Public Works  
Yesler Building  
400 Yesler Way, Room 600  
Seattle, WA 98104-2637  
**(206) 296-6542**

RECEIVED

'95 APR 18 A8:38

STATE OF WASHINGTON  
UTIL. & TRANSP.  
COMMISSION

April 14, 1995

**Steve McClellan**  
Secretary  
Washington Utilities and Transportation Commission  
Post Office Box 47250  
1300 South Evergreen Park Drive SW  
Olympia, WA 98504-7250

Dear Mr. McClellan:

The purpose of this letter is to respond to Washington Utilities and Transportation Commission (WUTC) staff's settlement proposal for the Eastside Disposal case. The discussions between our staff have been very useful and productive. We have made considerable progress towards trying to develop a mutually agreeable settlement of the issues.

First I would like to summarize our discussions to date, identifying the points in which we are in agreement. I'll conclude by explaining our views of the last area of disagreement between our proposals.

#### **BACKGROUND**

From the beginning of our discussions we feel we have made some important concessions so we could move forward on a settlement:

- We have agreed to work with the WUTC's cost of service model. We have not asked the WUTC to develop a separate model to set rates in King County. All of the alternatives/solutions we have discussed can all be implemented within the WUTC's current model.
- In all of our discussions and settlement proposals we have not tried to force a resolution to the questions regarding WUTC responsibilities in implementing state law. Specifically, we have not addressed RCW 81.77 which requires the WUTC to set rates that meet the requirements of local comprehensive plans and implementation ordinances. We feel we have been more concerned about developing solutions that will work for both the WUTC and King County without trying to resolve the legal responsibilities outlined in state law.

Steve McClellan  
April 14, 1995  
Page Two

## KING COUNTY'S PROPOSAL

As a result of our discussions we submitted a draft settlement proposal for WUTC consideration on March 15, 1995. The settlement proposed that the cost of service model allocate garbage collection costs on a per gallon basis, rather than the current allocation methods that rely more on estimated can weights. Our discussions also concluded that the market prices for recyclables needed to be addressed regularly in setting the rate for recycling services. The proposal also outlined the actions to be taken by the WUTC, Rabanco, and King County to affect these changes:

- The WUTC would require all haulers serving unincorporated King County to set garbage rates that allocate costs on a per gallon basis to customers;
- The WUTC would work with King County and the haulers to develop a process for periodically adjusting recycling rates to ensure that current market prices are reflected in a customer's recycling charge;
- Rabanco would file garbage rates using the per gallon allocation cost of service model for all three companies (Eastside, SeaTac, Kent-Meridian Valley) serving unincorporated King County;
- Rabanco would file recycling rates that are based on current market prices;
- King County would propose changes to its service level ordinance to the County Council that would require all haulers to use the per gallon method, and to file new recycling rates on a regular basis to reflect current material market prices.

## WUTC'S COUNTERPROPOSAL

WUTC staff discussed this matter with the Commissioners in March and have developed a counterproposal. WUTC's counterproposal conceded that some costs could be allocated on a per gallon (volume) basis, but proposed an alternative to distributing fixed overhead costs and disposal costs.

- Disposal fees, which constitute approximately 50 per cent of total expenses, would continue to be allocated by weight to each customer service level;
- Expenses other than disposal fees, which represent approximately 40 percent of total expenses, would be allocated by volume (per gallon) basis;

Steve McClellan

April 14, 1995

Page Three

- Overhead expenses, which are approximately 10 percent of total expenses, would be allocated pursuant to a weighted customer charge;
- The haulers would be required to make an adjustment to recycling charges, based on current market prices, every time they file a request for a rate change.

We agree with the last two proposals regarding the overhead expenses and the recycling rate requirements. However, we still propose that all remaining costs be allocated on a volume basis, not just 40 percent of the costs. The only remaining issue for us to resolve is how to allocate the disposal fee costs.

#### REMAINING ISSUE

We feel that allocating disposal fees by volume is a fair, just, and reasonable way to set garbage rates. The disposal fees would be allocated to customers based on the amount of disposal capacity purchased. Our reasons for preferring the volume based rates are summarized below.

- The current weight-based method for allocating these costs does not fairly distribute the disposal fees to customers. For example, if the model assumes the weight of two cans is 1.5 times the weight of one can, and a customer only fills one and a quarter cans, they are paying more than their fair share of the disposal fees because they are paying for 1.5 cans. Conversely, if the two can customer fills their two cans, they are not paying the full costs of disposal because they are only charged for putting out 1.50 cans.
- The can weights may or may not actually reflect actual weight of the cans set out at the curb. But because of the way the disposal fees are allocated, the one can customer, pound for pound, pays more than the three can customer.
- It is our understanding that the model does not actually allocate disposal costs to the actual average weight of each customer class. The relative relationship between the service levels is used to allocate the disposal fees. For example, if the two can weight is estimated to be 20 percent more than the one can weight, costs are allocated that way, even though the two can customer can throw out twice the amount of garbage. Therefore, the model distributes costs on a percentage basis and are not true cost-based rates.
- The WUTC's own calculations show that the actual disposal fees paid do not coincide with the expected disposal fees, based on the weights used in the model. In order to allocate the disposal fees, the WUTC "trues-up" the actual and expected disposal fees. In short, allocating costs on a weight basis does not appear to be a good estimate of actual disposal by each customer class.

Steve McClellan  
April 14, 1995  
Page Four

In short, allocating disposal fees on a volume basis is fair to the customer. When they purchase two can service, they are purchasing the ability to throw away two cans full of garbage each week. They are paying for that capacity, whether they use it or not.

#### CONCLUSION

In order to move forward with a settlement, we need the WUTC to explain why allocating disposal costs to average weights of cans is preferable to allocating disposal costs to the gallons of disposal service purchased. We also need to understand why the weight based method is more equitable and reasonable to the customer. We would also like to know if you have further refinements to allocating the costs that may bring us closer to an agreement (e.g., can a greater percentage of the disposal fees be allocated on a per gallon basis?).

We had hoped to reach a mutually agreeable settlement before briefs needed to be filed for the Eastside case. Since a settlement has not been reached, we filed our brief on April 13, 1995. Hopefully, this matter can be resolved before counsel for the Rabanco Companies and the Attorney General's office briefs need to be filed May 3, 1995, and certainly before the June 1, 1995 hearing date.

I look forward to hearing from you soon. Please call me at (206) 296-8458 if you have any questions. Thank you.

Sincerely,



Susan Gulick  
Manager, Waste Reduction and Recycling

SG:sm  
ap:settle3.let

cc: Eugene Eckhardt, Washington Utilities and Transportation Commission  
Rod Hansen, Manager, Solid Waste Division  
Kathryn Killinger, Office of the Prosecuting Attorney  
Jeff Gaisford, Program Supervisor