

Exhibit No. ___T (MC-11T)
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

SUPPLEMENTAL TESTIMONY OF

Melissa Cheesman

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

August 15, 2014

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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

20 I attended the Western NARUC Utility Rate School (2013) and the National
21 Association of Water Companies 2013, Staff Water Policy Forum. I have audited
22 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,

23

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

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

3
4 **II. PURPOSE AND SCOPE OF SUPPLEMENTAL TESTIMONY**

5
6 **Q. What is the purpose of your supplemental testimony?**

7 A. The purpose of my supplemental testimony is to present Staff's recommendations
8 regarding rate design. Staff proposes to adjust rates to generate Staff's
9 recommended additional annual revenue of approximately \$132,000 (3.5 percent).

10
11 **Q. Please explain why Staff is filing supplemental testimony on the issue of rate
12 design.**

13 A. In Order 05 of Waste Control Inc.'s (WCI or the Company) present filing, docket
14 TG-140560, the Commission granted Staff's motion to compel responses to data
15 requests 7, 8, 11, and ordered the parties to participate in a discovery conference on
16 July 11, 2014. Additionally, Order 05 required Staff to file responsive testimony on
17 July 18, 2014. At the discovery conference on July 11, WCI indicated that it would
18 not be able to provide the requisite information relating to rate design until after Staff
19 filed its responsive testimony on July 18, 2014. As a result, the Company requested
20 that Staff file supplemental testimony at a later date on the issue of rate design. Staff
21 agreed to the Company's proposal and explained the above-noted circumstances to

1 the Commission in a cover letter accompanying Staff's testimony on July 18, 2014,
2 and in the testimony itself.¹

3
4 **Q. Is there additional background or clarifying information that would help the**
5 **Commission understand Staff's recommendation for rate design?**

6 A. Yes. For the purposes of analyzing rate design, it is helpful to remember that WCI
7 has two tariffs: (1) Tariff 14, which is the most recent permanent tariff, and (2)
8 Tariff 15, which is the presently-suspended and temporary tariff with rates subject to
9 refund. The Company is currently collecting the temporary rates included in Tariff
10 15. Staff's recommendation calculates an increase to rates relative to the permanent
11 rates in Tariff 14.

12
13 **Q. Does Staff's proposed rate design decrease the suspended Tariff 15 temporary**
14 **rates?**

15 A. Yes. Under Tariff 15, which is temporary and subject to refund, the Commission
16 allowed the Company to increase rates by approximately \$176,000 annually to offset
17 an increase in disposal fees. Staff's revenue requirement of approximately \$132,000
18 is less than the \$176,000 in temporary rates. Consequently, Staff recommends the
19 Commission order the Company to refund a pro rata share of the difference for the
20 period temporary rates have been in effect, and reduce certain rates from their
21 temporary levels to reflect Staff's lower revenue requirement. Please refer to Exhibit
22 No. ____ (MC-12), tab "Staff Price Out," column L for the decrease to temporary

¹ Testimony of Melissa Cheesman, at Section III, pp. 4-5.

1 rates in Tariff 15. Rates that were not increased on a temporary basis subject to
2 refund have increased based on Staff's calculated increase.

3 4 III. RATE DESIGN

5 6 A. Overview

7
8 **Q. Does Staff propose a rate design based on a cost-of-service study?**

9 A. No. The Company did not provide its cost-of-service based rate design.² Staff
10 received the Company's completed rate design-related hardcode explanations on
11 August 1, 2014. Staff simply has not had sufficient time to complete a cost-of-
12 service study.

13
14 **Q. Please summarize Staff's proposed rate design.**

15 A. Staff's calculation can be found in Exhibit No. ____ (MC-12).

16 First, Staff calculates a percentage increase for rates by removing total drop
17 box pass-through disposal fees from the Lurito-Gallagher calculated revenue
18 requirement and the Company's test-year-revenues.³ Staff then divides its \$132,000

² On May 12, 2014, as part of Staff's formal Data Request 11 relating to externally linked workbooks, Staff asked the Company to provide its externally linked cost-of-service rate design. The Company did not want to provide its cost-of-service rate design, instead the Company responded to Staff's request with substitute file "TG-140560 Rate Design 051414.xls," which also did not include a cost-of-service rate design.

³ Generally, counties set disposal fees, which regulated companies then pass through to residential, commercial and drop box customers on a dollar-for-dollar basis. Residential and commercial service rates include the disposal fees. However, pass-through disposal fees related to drop box customers are a separate tariff charge under Item 230. Because drop box pass-through disposal fees are a separate tariff Item 230 charge and cannot be increased, Staff removed all drop box pass-through disposal fees from Staff's rate design.

1 revenue deficiency⁴ by the test-year-revenues, less pass-through disposal fees, to
2 arrive at Staff's calculated increase. Staff's calculated increase is approximately 4.2
3 percent.⁵

4 Second, Staff increases the Company's most recent permanent rates in Tariff
5 14 by Staff's calculated increase of 4.2 percent. Please see Staff's detailed
6 calculation in Exhibit No. ____ (MC-12), tab "Staff Price Out," column G.

7 Third, Staff calculates a single, company-wide rate for regulated residential
8 carts and commercial container services that have multiple rates under Tariffs 14 and
9 15. Please see Staff's detailed calculation in Exhibit No. ____ (MC-12), tab
10 "Average."

11
12 **Q. Please explain Staff's proposal for a single, company-wide rate for those**
13 **regulated services that have multiple rates under Tariffs 14 and 15.**

14 A. Staff proposes that the Commission order WCI to implement a single, company-wide
15 rate for the same regulated services throughout its permitted area.

16 Currently, WCI has multiple service rates that differ based on geographic
17 location rather than the type of service. The Company has different residential cart
18 service rates for the following areas in its permitted area: (1) Cowlitz County, (2)
19 Castle Rock, and (3) Woodland. The Company also has different commercial
20 container service rates for Cowlitz County and Woodland. As noted above, Staff

⁴ Staff's proposed revenue deficiency is also referred to as Staff's proposed additional annual revenue and is calculated as: Revenue Requirement \$3,882,075 minus Test-Year-Revenue \$3,749,823 equals Revenue Deficiency \$132,252.

⁵
$$\frac{\text{Revenue Deficiency}}{\text{Test-Year-Revenue minus Pass-through Disposal Fees}} = \frac{132,252}{3,749,823-580,454} = \frac{132,252}{3,169,369} \approx 4.2 \text{ percent.}$$

1 recommends the Commission order WCI to implement a single, company-wide rate
2 for the same regulated services throughout its permitted area.

3
4 **Q. Please explain Staff's rationale for setting a single, company-wide rate for the**
5 **same regulated service.**

6 A. Staff's rationale includes two parts. First, consolidating like-kind regulated service
7 rates to a single, company-wide rate simplifies the Company's tariff, which makes
8 the tariff easier to understand for the ratepayer and all other stakeholders. Second,
9 the Company has not provided support to continue the use of a rate design that has
10 multiple rates for a single service for ratepayers within the same permitted area.

11 Therefore, Staff's recommendation calculates all residential carts and commercial
12 container services at the same rates for the same service within the same permitted
13 area.

14
15 **Q. Do the calculations described above affect Staff's proposed revenue**
16 **requirement?**

17 A. No. It is important to note that this treatment does not affect Staff's proposed
18 additional annual revenue of approximately \$132,000. Staff's calculation merely
19 removes the disposal fees that are already included as a pass-through to the drop box
20 customers as a separate item 230 tariff rate and sets single, company-wide rates for
21 like-kind regulated services throughout the Company's permitted area.

1 **B. Description of Exhibit No. ____ (MC-12)**

2
3 **Q. Please describe Staff's Exhibit No. ____ (MC-12)**

4 A. Staff's Exhibit No. ____ (MC-12) includes two parts: (1) Staff Price Out; and (2)
5 Single, Company-Wide Rates.

6
7 **Q. Please describe the Staff Price Out.**

8 A. The first portion of Exhibit No. ____ (MC-12), tab "Staff Price Out" calculates Staff's
9 proposed rate design. Column J demonstrates test-year-calculated-revenues using
10 the Company's regulated customer counts, applicable pick-up frequency, and Tariff
11 14 rates. In cell range J3 through M8, Staff reconciles the Company's test-year -
12 revenues to the test-year-calculated-revenues. The difference between the
13 Company's test-year-revenues and the test-year-calculated-revenues is
14 approximately \$118,000, shown in cell L6.⁶

15 Staff calculates increased rates and proposed rates in columns G and H,
16 respectively. The "increased rate" in column G is a rate from Tariff 14 multiplied by
17 1.042.⁷ The "proposed rate" in column H reflects Staff's recommendation for a
18 single, company-wide rate for those services that have multiple rates based on
19 geographic location in Tariff 14. Finally, in columns L through N, Staff shows the

⁶ Please refer to Exhibit No. ____ (MC-12), file "Staff Rate Design MC-12.xlsx," tab "Staff Price Out," cell range J167 through K173, for the inclusion of the difference between the Company's test-year-revenues and the test-year-calculated-revenues in Staff's calculation of "Total Test Year Revenue" and "Total Revenue Generated by Staff Proposed Rates."

⁷ 1.042 is 1 plus Staff's calculated increase of 4.2 percent.

1 increase or decrease in generated revenue between Staff's proposed rates and those
2 rates listed in suspended, temporary Tariff 15.

3
4 **Q. Please describe Staff's recommendation for Single, Company-Wide Rates.**

5 A. The second portion of Exhibit No. ___ (MC-12), in the tab labeled "Average,"
6 calculates Staff's recommended rate for tariff services that currently have multiple
7 rates for residential cart and commercial container services. For each identified
8 service that has multiple rates, Staff calculates an average tariff rate to propose to the
9 Commission. For example, the Company currently has three residential rates for a
10 90-gallon cart. Staff increased each Tariff 14 rate for the 90-gallon cart by Staff's
11 calculated increase. This calculation resulted in the following: one rate for Cowlitz
12 County, \$21.67, one rate for Castle Rock, \$21.41, and one rate for Woodland,
13 \$20.99. Staff proposes to set all residential rates for a 90-gallon cart to one average
14 rate, \$21.58. Staff's proposed method allows the Company to generate Staff's
15 proposed revenue requirement and implements a single, company-wide tariff rate for
16 the same regulated service throughout the Company's permitted area.

17
18 **Q. What is Staff's recommendation for Tariff 14 rates not included in Exhibit No.**
19 **___ (MC-12), tab "Staff Price Out?"**

20 A. Staff recommends that the remaining Tariff 14 rates not included in Exhibit No. ___
21 (MC-12), tab "Staff Price Out" increase by Staff's calculated increase percentage,
22 4.2 percent.

1 There are two exceptions to Staff's recommendation: (1) Item 230 –
2 Disposal Fees, and (2) a limited number of commercial container services that do not
3 have any customers but are listed in Tariff 14 with multiple rates in the Company's
4 permitted area.

5 For the first exception noted above for Item 230, by rule, Staff cannot
6 increase pass-through disposal fees. WAC 480-70-341 states that the "company
7 must charge its customers the disposal fees contained in the company's lawfully filed
8 tariffs applicable to the disposal site actually used for disposal" and the "company
9 must not charge its drop-box customers disposal fees that exceed the actual cost to
10 the company."

11 For the second exception relating to the limited number commercial container
12 services that do not have any customers but are listed in Tariff 14 with multiple rates,
13 Staff recommends using an average of the increased rates⁸ to calculate a single,
14 company-wide rate. Please refer to Exhibit No. ____ (MC-12), tab "Average," cell
15 range B84 through I85, for Staff's proposed average rate.

16
17 **Q. Why are there Tariff 14 rates not included in Exhibit No. ____ (MC-12), tab**

18 **"Staff Price Out?"**

19 **A. "Staff Price Out" only includes Tariff 14 rates with current customers.**

20

⁸ The term "increased rates" refers to the existing Tariff 14 rates multiplied by 1.042. Staff averages these "increased rates" to arrive at a single, company-wide rate for the same regulated services throughout WCI's permitted area.

1 Q. Does this conclude your testimony?

2 A. Yes.

3