**Exhibit No. \_\_\_T (MC-11T)**

**Docket TG-140560**

**Witness: Melissa Cheesman**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **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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**I. INTRODUCTION**

**Q. Please state your name and business address.**

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

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

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

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

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

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

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

I attended the Western NARUC Utility Rate School (2013) and the National Association of Water Companies 2013, Staff Water Policy Forum. I have audited the following solid waste general rate case dockets (from most current to oldest): TG-140560, TG-131794, TG-131121, TG-130502, TG-130501, TG-121791, TG-121510, and TG-121044. I also previously provided written testimony before the Commission in support of a settlement agreement for dockets TG-130501 and TG-130502.

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

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

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

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

A. In Order 05 of Waste Control Inc.’s (WCI or the Company) present filing, docket TG-140560, the Commission granted Staff’s motion to compel responses to data requests 7, 8, 11, and ordered the parties to participate in a discovery conference on July 11, 2014. Additionally, Order 05 required Staff to file responsive testimony on July 18, 2014. At the discovery conference on July 11, WCI indicated that it would not be able to provide the requisite information relating to rate design until after Staff filed its responsive testimony on July 18, 2014. As a result, the Company requested that Staff file supplemental testimony at a later date on the issue of rate design. Staff agreed to the Company’s proposal and explained the above-noted circumstances to the Commission in a cover letter accompanying Staff’s testimony on July 18, 2014, and in the testimony itself.[[1]](#footnote-2)

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

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

**Q. Does Staff’s proposed rate design decrease the suspended Tariff 15 temporary rates?**

A. Yes. Under Tariff 15, which is temporary and subject to refund, the Commission allowed the Company to increase rates by approximately $176,000 annually to offset an increase in disposal fees. Staff’s revenue requirement of approximately $132,000 is less than the $176,000 in temporary rates. Consequently, Staff recommends the Commission order the Company to refund a pro rata share of the difference for the period temporary rates have been in effect, and reduce certain rates from their temporary levels to reflect Staff’s lower revenue requirement. Please refer to Exhibit No. \_\_\_ (MC-12), tab “Staff Price Out,” column L for the decrease to temporary rates in Tariff 15. Rates that were not increased on a temporary basis subject to refund have increased based on Staff’s calculated increase.

**III. RATE DESIGN**

1. **Overview**

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

A. No. The Company did not provide its cost-of-service based rate design. [[2]](#footnote-3) Staff received the Company’s completed rate design-related hardcode explanations on August 1, 2014. Staff simply has not had sufficient time to complete a cost-of-service study.

**Q. Please summarize Staff’s proposed rate design.**

A. Staff’s calculation can be found in Exhibit No. \_\_\_ (MC-12).

First, Staff calculates a percentage increase for rates by removing total drop box pass-through disposal fees from the Lurito-Gallagher calculated revenue requirement and the Company’s test-year-revenues.[[3]](#footnote-4) Staff then divides its $132,000 revenue deficiency[[4]](#footnote-5) by the test-year-revenues, less pass-through disposal fees, to arrive at Staff’s calculated increase. Staff’s calculated increase is approximately 4.2 percent.[[5]](#footnote-6)

Second, Staff increases the Company’s most recent permanent rates in Tariff 14 by Staff’s calculated increase of 4.2 percent. Please see Staff’s detailed calculation in Exhibit No. \_\_\_ (MC-12), tab “Staff Price Out,” column G.

Third, Staff calculates a single, company-wide rate for regulated residential carts and commercial container services that have multiple rates under Tariffs 14 and 15. Please see Staff’s detailed calculation in Exhibit No. \_\_\_ (MC-12), tab “Average.”

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

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

Currently, WCI has multiple service rates that differ based on geographic location rather than the type of service. The Company has different residential cart service rates for the following areas in its permitted area: (1) Cowlitz County, (2) Castle Rock, and (3) Woodland. The Company also has different commercial container service rates for Cowlitz County and Woodland. As noted above, Staff recommends the Commission order WCI to implement a single, company-wide rate for the same regulated services throughout its permitted area.

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

A. Staff’s rationale includes two parts. First, consolidating like-kind regulated service rates to a single, company-wide rate simplifies the Company’s tariff, which makes the tariff easier to understand for the ratepayer and all other stakeholders. Second, the Company has not provided support to continue the use of a rate design that has multiple rates for a single service for ratepayers within the same permitted area. Therefore, Staff’s recommendation calculates all residential carts and commercial container services at the same rates for the same service within the same permitted area.

**Q. Do the calculations described above affect Staff’s proposed revenue requirement?**

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

1. **Description of Exhibit No. \_\_\_ (MC-12)**

**Q. Please describe Staff’s Exhibit No. \_\_\_ (MC-12)**

A. Staff’s Exhibit No. \_\_\_ (MC-12) includes two parts: (1) Staff Price Out; and (2) Single, Company-Wide Rates.

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

A. The first portion of Exhibit No. \_\_\_ (MC-12), tab “Staff Price Out” calculates Staff’s proposed rate design. Column J demonstrates test-year-calculated-revenues using the Company’s regulated customer counts, applicable pick-up frequency, and Tariff 14 rates. In cell range J3 through M8, Staff reconciles the Company’s test-year -revenues to the test-year-calculated-revenues. The difference between the Company’s test-year-revenues and the test-year-calculated-revenues is approximately $118,000, shown in cell L6.[[6]](#footnote-7)

Staff calculates increased rates and proposed rates in columns G and H, respectively. The “increased rate” in column G is a rate from Tariff 14 multiplied by 1.042.[[7]](#footnote-8) The “proposed rate” in column H reflects Staff’s recommendation for a single, company-wide rate for those services that have multiple rates based on geographic location in Tariff 14. Finally, in columns L through N, Staff shows the increase or decrease in generated revenue between Staff’s proposed rates and those rates listed in suspended, temporary Tariff 15.

**Q. Please describe Staff’s recommendation for Single, Company-Wide Rates.**

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

**Q. What is Staff’ recommendation for Tariff 14 rates not included in Exhibit No. \_\_\_ (MC-12), tab “Staff Price Out?”**

A. Staff recommends that the remaining Tariff 14 rates not included in Exhibit No. \_\_\_ (MC-12), tab “Staff Price Out” increase by Staff’s calculated increase percentage, 4.2 percent.

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

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

 For the second exception relating to the limited number commercial container services that do not have any customers but are listed in Tariff 14 with multiple rates, Staff recommends using an average of the increased rates[[8]](#footnote-9) to calculate a single, company-wide rate. Please refer to Exhibit No. \_\_\_ (MC-12), tab “Average,” cell range B84 through I85, for Staff’s proposed average rate.

**Q. Why are there Tariff 14 rates not included in Exhibit No. \_\_\_ (MC-12), tab “Staff Price Out?”**

A. “Staff Price Out” only includes Tariff 14 rates with current customers.

**Q. Does this conclude your testimony?**

A. Yes.

1. Testimony of Melissa Cheesman, at Section III, pp. 4-5. [↑](#footnote-ref-2)
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. [↑](#footnote-ref-3)
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. [↑](#footnote-ref-4)
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. [↑](#footnote-ref-5)
5. $ \frac{Revenue Deficiency}{Test-Year-Revenue minus Pass-through Disposal Fees}= \frac{132,252}{3,749,823-580,454}= \frac{132,252}{3,169,369}≈4.2$ percent. [↑](#footnote-ref-6)
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.” [↑](#footnote-ref-7)
7. 1.042 is 1 plus Staff’s calculated increase of 4.2 percent. [↑](#footnote-ref-8)
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. [↑](#footnote-ref-9)