

Agenda Date: October 25, 2006

Item Numbers:

Company: Waste Management of Washington, Inc., G-237

Dockets: TG-061431 - WM - Northwest
TG-061432 - WM - Seattle & South Sound
TG-061433 – WM – SnoKing

Staff: Bob Colbo, Transportation Program Staff

Recommendation

Issue an order approving the revised filings of Waste Management of Washington, Inc., G-237, in Docket TG-061431 for WM-Northwest; in Docket TG-061432 for WM-Seattle & South Sound; and in Docket TG-061433, for WM-SnoKing to become effective November 1, 2006. These filings include new permanent rates, excluding fuel related expenses, and new Fuel Component Supplements compensating each carrier for their current level of fuel expenses. Further, grant the company's request for waiver of WAC 480-70-271(1), Customer Notification.

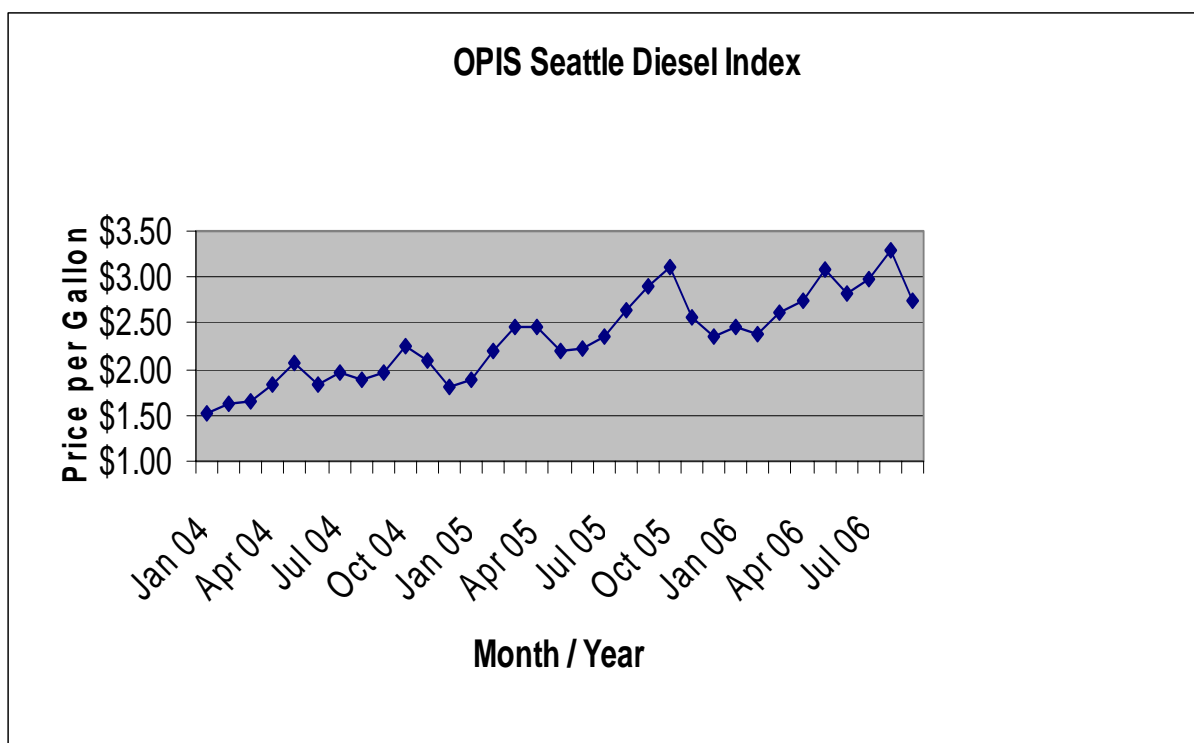
Discussion

On September 6, 2006, the above-named companies, all operating entities within Waste Management of Washington, Inc., G-237, (Waste Management, WM, or company) filed proposed new tariffs and tariff supplements designed to recover the increased costs of fuel since the time their present permanent tariffs became effective. A Less Than Statutory Notice (LSN) and a request for waiver of customer notification petitions accompanied the filings seeking an effective date of October 1, 2006. The company also sought a waiver of WAC 480-70-271(1), customer notification. The company pledged to notify customers on the first billing containing the increases. The company subsequently withdrew all the LSN applications on September 21, 2006, and later changed all the effective dates to November 1, 2006. WM-Northwest serves throughout Snohomish County, excluding the city of Everett. The rates became effective June 2005. WM-Seattle & South Sound serves Seattle and south central King County. The rates became effective May 2006. WM-SnoKing serves northern King County. The rates became effective September 2005. As time passed and fuel prices decreased, Waste Management filed revised supplements lowering the amount originally sought to recover current fuel costs.

The present solid waste fuel surcharge system uses an Oil Price Information Service (OPIS) index to estimate present fuel prices and arrives at a one to three month net surcharge (depending on the company's billing cycle) after requiring the company to absorb the first one percent. For example, if the analysis comparing fuel price levels embedded in rates and current costs yields a revenue increase factor of 3.2 percent, the company absorbs the first 1.0 percent, leaving 2.2 percent passed on to customers. The companies object to this process, citing the difficulty in qualifying. Regardless of the amount ultimately approved, no reconciliation ever occurs between revenue brought in via the surcharge and actually experienced increased fuel costs.

These filings represent a new method of handling fuel expense permanently from this point forward, but particularly beneficial in those difficult times such as the recent past when fuel prices changed rapidly and unpredictably. The process is the result of meetings and teleconferences held between July and September between the staff and industry leaders seeking a different approach to a longstanding problem. The proposed solution is a deferred fuel expense approach similar to that already in effect with deferred curbside recycle programs.

The following graph shows diesel price changes in the greater Seattle area since January 2004, as reflected in the OPIS Index:



The basic deferral process 1) Removes fuel as an operating expense when calculating revenue requirements and rates, and issues a new permanent tariff reflecting such appropriately lowered rates; 2) Uses an index [staff recommends using an OPIS-derived index] to annually estimate current fuel expense levels [expressed as a percent of revenue] and file a fuel component supplement [expressed as a percent of revenue] recovering those costs over the next year; and 3) Every year thereafter [using the same index, but an updated version] determine a new composite index comprised of (a) the new assessment of expected fuel costs during the upcoming year, plus (b) any difference between actual fuel expense incurred during the past year and the amounts collected from customers from last year's supplement – the deferral. See "The Criteria and Procedures for the Deferred Fuel Approach in Attachment A for a more detailed explanation of the actual calculations and process.

Waste Management's filings in these dockets accomplish the initial, first year incremental steps in that process. They proposed lower permanent rates in the new tariffs removing fuel as an operating expense. They also added a percentage fuel component supplement according to the below table. Waste Management routinely maintains fuel consumption detail by vehicle and type of activity. That analysis reveals that fuel use varies by residential garbage, residential recycling, residential yard waste, commercial, and drop box customers. Staff and the company agreed that combining all residential services into one composite residential index simplifies the process without distorting the outcome. The company tailored its filings to reflect this approach:

Company	Total Residential #		Commercial		Drop Box / Roll Off *		All Combined	
	Remove	Add	Remove	Add	Remove	Add	Remove	Add
Northwest	-3.86%	5.66%	-0.93%	1.33%	-5.94%	8.91%	-3.22%	4.70%
Seattle – South Sound	-3.22%	3.73%	-1.22%	1.39%	-9.27%	11.47%	-2.82%	3.26%
SnoKing	-3.68%	5.11%	-2.01%	2.74%	-10.35%	15.47%	-3.66%	5.08%

Total Residential includes recycling and yard waste.

* Drop Box percentages appear larger because service involves exclusive use of the truck, and because the supplement percentage does not apply to the Item 230 disposal part of the cost.

See net revenue increases by company and type of service as disclosed in the table below:

Company	Total Residential#	Commercial	Drop Box	All Combined
Northwest	\$(880,245)	\$(87,199)	\$(151,258)	\$(1,118,702)
	\$1,211,346	\$119,999	\$208,153	\$1,539,498
	\$331,101	\$32,800	\$56,895	\$420,795
Net Increase - %				1.01%
Seattle - So Sound	\$(237,012)	\$(41,419)	\$(35,474)	\$(313,905)
	\$251,583	\$43,965	\$37,655	\$333,203
	\$14,571	\$2,546	\$2,181	\$19,298
Net Increase - %				0.01%
SnoKing	\$(295,592)	\$(50,183)	\$(61,153)	\$(406,928)
	\$387,239	\$65,742	\$80,113	\$533,094
	\$91,647	\$15,559	\$18,960	\$126,166
Net Increase - %				0.91%

Total Residential includes recycling and yard waste.

See examples of specific present rates, reduced proposed rates eliminating fuel expense, and rate impacts of the fuel supplement in the following table:

Company	Rate	<u>Residential</u> 64 gal. tote + Recy + Yard Waste	<u>Commercial</u> 1 Yard Container	<u>Drop Box</u> 20 Yd w/o Pass Thru.
Northwest	Present	\$36.45	\$63.79	\$158.90
	W/O Fuel	\$35.04	\$63.20	\$149.46
	+ Fuel Supplement	\$37.02	\$64.04	\$162.77
Net Increase - %		1.56%	0.39%	2.44%
Seattle – South Sound	Present	\$36.17	\$60.79	\$138.20
	W/O Fuel	\$35.01	\$60.05	\$125.39
	+ Fuel Supplement	\$36.31	\$60.88	\$139.77
Net Increase - %		.39%	0.15%	1.13%
SnoKing	Present	\$34.60	\$79.11	\$165.60
	W/O Fuel	\$33.33	\$77.52	\$148.46
	+ Fuel Supplement	\$35.03	\$79.64	\$171.43
Net Increase - %		1.24%	.66%	3.58%

Staff used the criteria and procedures as set forth in Attachment A to evaluate the new deferred fuel component approach. Staff concludes those criteria and procedures result in rates that are fair, just, reasonable, and sufficient.

The company requests waiver of the requirement to give 30 days customer notice before commission action (WAC 480-70-270 (1)). The company proposes to notify customers on or with the first bill after the effective date of this filing. This notification process is consistent with the notice requirements of fuel surcharge filings.

Conclusion

Staff recommends that the commission issue an order approving the revised filings of Waste Management of Washington, Inc., G-237, in Docket TG-061431 for WM-Northwest; in Docket TG-061432 for WM-Seattle & South Sound; and in Docket TG-061433, for WM-SnoKing to become effective November 1, 2006. These filings include new permanent rates, excluding fuel related expenses, and new Fuel Component Supplements compensating each carrier for their current level of fuel expenses. Further, grant the company's request for waiver of WAC 480-70-271(1), Customer Notification.