

Agenda Date: April 26, 2018
Item Numbers: B1, B2, B3, B4, and B5

Dockets: TG-180190, TG-180191, TG-180192, TG-180193, and TG-180194
Company: Waste Management of Washington, Inc.

Staff: Greg Hammond, Regulatory Analyst
John Cupp, Consumer Protection Staff

Recommendation

Take no action, thereby allowing the tariff pages filed by Waste Management of Washington, Inc. on March 1, 2018, and revised on April 19, 2018, to take effect by operation of law.

Discussion

Waste Management of Washington, Inc. filed tariff revisions for five of its business units on March 1, 2018 requesting the implementation of a surcharge on its residential recycling customers in order to recover the increasing cost of processing recyclable materials at its affiliated Materials Recovery Facilities (MRFs) due to the effects of China's "National Sword" policy. The five affected business units are Waste Management North Sound/Marysville (TG-180190), Waste Management South Sound/Seattle (TG-180191), Waste Management of Spokane (TG-180192), Waste Management of Skagit County (TG-180193), and Brem-Air Disposal (TG-180194).

The company's proposed mechanism would enact a surcharge that would be in effect for 90 days and would allow its business units to more quickly recover the processing costs being charged by their affiliate MRFs. As proposed, the company would file every 90 days to update this surcharge, or alternatively, allow the surcharge to expire. The amount of the surcharge is based on the per-ton recycling processing fees embedded in the recycling collection rates from the most recent rate cases. The surcharge proposed in these filings would bring these recycling processing fees up to date, using the average per-ton recycling processing fees during the fourth quarter of 2017 (October through December) at the three MRFs. These three MRFs are Cascade Recycling Center (CRC), JMK Fibers (JMK), and Spokane Material & Recycling Technology Center (SMaRT).

These filings also included a request for exemption from customer notice requirements, which was denied at the March 29, 2018, open meeting. Consequently, the cost of the customer notices has been amortized over the initial 90 day period and added to the surcharge amounts. The cost of these customer notices, \$0.13 per customer, would be recovered in full over the initial 90 day period and would be removed from future surcharge calculations. The proposed surcharge amounts are shown in the "Rate Comparison" table below.

As mentioned previously, the recycling commodity markets have faced significant changes due to the implementation of China's National Sword Policy. This policy enacts maximum acceptable contamination levels for recycling commodities imported into China. As a result, the

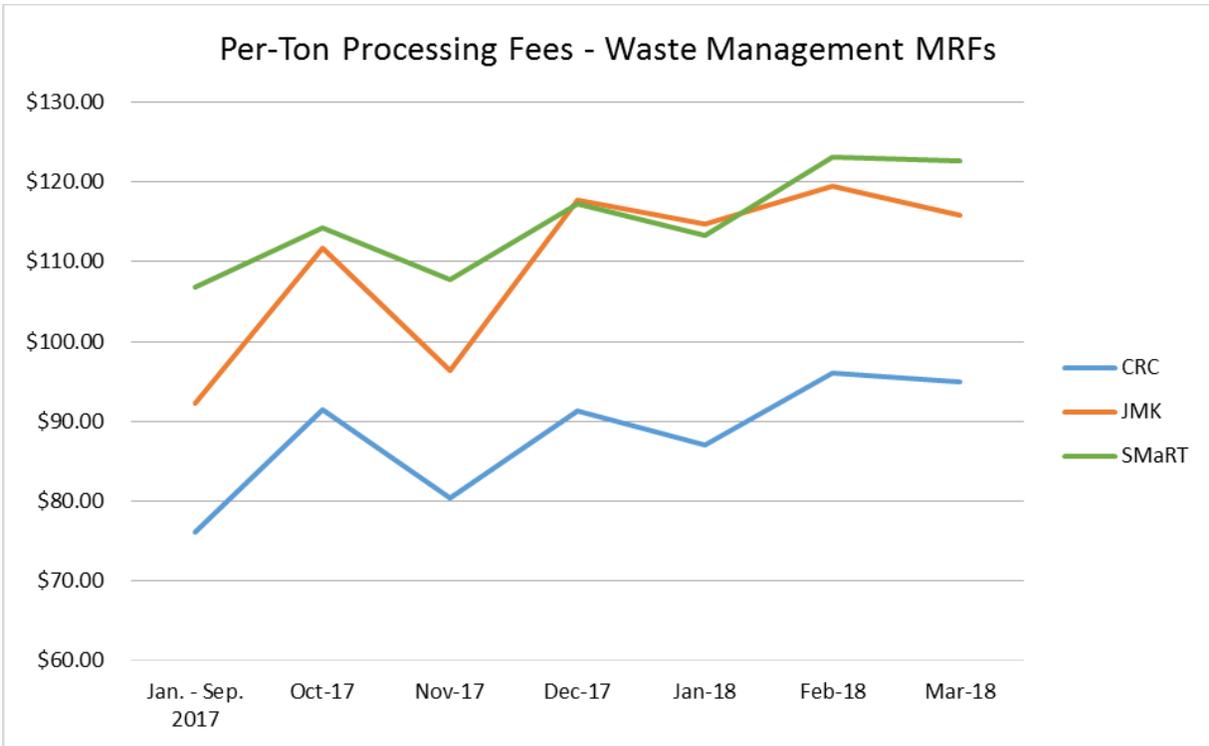
demand for many recyclable commodities has dropped significantly due to the inability of MRFs to keep contamination levels under the acceptable levels. This has forced the MRFs to enact process changes in an attempt to lower contamination rates. Processing lines have been slowed and more manual labor has been implemented as some automated sorting techniques have proven insufficient to meet the new contamination thresholds. This has caused substantial increases to recycling processing costs towards the latter end of 2017 and into 2018. This trend is seen throughout the recycling industry as a whole.

These filings are being treated differently than those filed recently by other companies due to a few different factors. Many of the companies we regulate take their recyclables to third party MRFs where the processing costs are netted against commodity values to arrive at the net commodity revenue to be passed back to customers. Because Waste Management takes its recyclables to affiliate MRFs, the processing costs have traditionally been embedded in the company's recycling collection rates. This allows the auditor to examine the books and records of the MRF and examine the source of the processing costs during a rate case. This is the approach taken during the review of these filings. The company provided the separate monthly income statements for its three MRFs (CRC, JMK, SMaRT) covering the period of October through December of 2017, along with the end of year totals. The per-ton processing fees are calculated by dividing the total processing and disposal costs each month by the total tons processed at each MRF per month. During review of the provided monthly income statements, Staff removed non-allowable bonuses from the payroll amounts, causing a slight decrease in the surcharge amounts.

The proposed surcharges are calculated using MRF financial data from the fourth quarter of 2017 (October through December). Each surcharge was based on the difference between processing costs embedded in the most recent rate case for that business unit, and the current three month average processing cost. The amount of material processed, the cost of disposal, and the cost of operating each individual MRF account for the differences in the surcharges. The company has also provided data for the first quarter of 2018 per staff's request. The processing fees have continued to trend upward during this period. The per-ton processing fees, including the first quarter of 2018, are shown in the graph on the next page.

The surcharges have been proposed separate from the commodity credits for a few reasons. First, it allows for more transparency to customers. By keeping these separate it allows customers to see the additional cost being passed on to them due to the rising processing fees, separate from the value of their commodities being returned in the commodity credits. Also, this method would help to reduce confusion with regard to the company's revenue sharing agreements with King and Snohomish Counties, which do not have processing fees factored into the projected budgets.

All told, the company's proposal is reasonable and effective, and the revised surcharge amounts are fair, just, reasonable, and sufficient.



Rate Comparison

	Current Recycling Rate	Proposed Surcharge (Revised)	Current Commodity Credit	Total Cost to Customer
WM North Sound/Marysville	\$ 8.82	\$ 0.41	\$ (1.62)	\$ 7.61
WM South Sound/Seattle	\$ 9.40	\$ 0.73	\$ (1.42)	\$ 8.71
WM of Spokane	\$ 8.15	\$ 0.54	\$ (2.65)	\$ 6.04
Brem-Air Disposal	\$ 7.10	\$ 0.73	\$ (2.55)	\$ 5.28
WM Skagit (Skagit and Island Co. Area)	\$ 9.40	\$ 0.63	\$ (2.31)	\$ 7.72
WM Skagit (Snohomish Co. Area)	\$ 7.90	\$ 0.63	\$ (2.31)	\$ 6.22

Customer Comments

On March 30, the company notified its customers by mail of the proposed surcharge. Customers were notified that they may access relevant documents about this surcharge on the commission's website, and that they may contact John Cupp at 1-888-333-9882 or john.cupp@utc.wa.gov with

questions or concerns. Staff received 52 consumer comments; 39 opposed to the surcharge, nine in favor, and four undecided.

General Comments

- Most commenters said the rates are already too high. They believe the company makes enough money to absorb the processing fees without having to pass them on to customers. Several are skeptical of the company's statement that the surcharge is temporary and ask the UTC to look closely at the company's proposal. One customer believes the company should do more to educate its customers about how to reduce contamination in recyclable materials.

Customers in support of the surcharge believe it is a reasonable request. Several believe the company provides good service and needs the surcharge to continue providing a vital service. Two customers said they own businesses and understand the need for the surcharge.

Two customers were undecided, they believe the company should look for an alternative to recycling that makes more economical sense.

Staff Response

The customers were advised that state law requires rates to be fair, just, reasonable, and sufficient to allow the company to recover reasonable operating expenses and the opportunity to earn a reasonable return on its investment. Regulatory staff reviews filings to ensure that all rates and fees meet this standard. Staff provided information explaining how customers can review filed documents online.

In response to the customer who said the company should provide more education about recycling, staff requested information from the company about its education efforts. The company provided information, which staff shared with the customer. Company efforts include sending mailers to customers, applying educational tags to containers, training customer service representatives to answer recycling questions, and providing tours of processing facilities.

Conclusion

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