Exh. JW-1T
Witness: Joe Wonderlick

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. MURREY'S DISPOSAL COMPANY, INC. d/b/a OLYMPIC DISPOSAL, Respondent.	Docket No. TG-230778

RESPONDENT MURREY'S DISPOSAL COMPANY, INC'S

PREFILED DIRECT TESTIMONY

OF JOE WONDERLICK

MARCH 19, 2024

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PREFILED DIRECT TESTIMONY OF JOE WONDERLICK
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I. IDENTIFICATION OF WITNESS

Q. Please state your name and business address for the record.

A. My name is Joe Wonderlick. My business address is 808 Washington Street, Suite 300, Vancouver, WA 98660.

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

A. I am currently employed as the Senior Pricing Manager for Waste Connections. I am responsible for regulatory financial reporting throughout the Company's Western Region, which covers territory from Alaska to California and east into Nevada and Idaho. I supervise a team of three other analysts. The Pricing Department is responsible for regulatory financial matters in the Western Region, including preparation, filing, and defense of general rate filings.

Q. What is Waste Connections relationship with the Respondent?

A. Waste Connections is the parent company of Murrey's Disposal Company, Inc. dba Olympic Disposal (the "Company"). While the Company is a wholly owned subsidiary, it operates independently, making local decisions based on the needs of the community it serves. For efficiency, some operations are handled locally (for example, scheduling, routing, purchasing local supplies), others are handled at the division level (for example, some accounting services and leadership support, others regionally or nationally (for example, payroll, treasury, national purchasing, risk management, training, engineering, human resources, legal, information systems, and more).

Q. Please describe your professional qualifications.

A. I have performed various accounting roles in the solid waste industry for over 30 years. For example, I was the manager of consulting services for an Oregon-based CPA firm that was engaged by cities and counties to review the operations of their solid waste franchisees and licensees for two years. For eighteen years, I was a controller within the industry with increasing levels of responsibility. In 2010, I became a founding member of Waste Connections' Pricing Group. My qualifications are set forth in the resume attached as Exhibit JW-2 "Resume-Wonderlick 2023."

Q. What are your responsibilities with respect to the operation of the Company?

A. As Senior Pricing Manager, I am responsible for the calculation and presentation of the revenue requirement associated with this docket. I am responsible for the preparation and filing of the documents and the underlying calculations, including their form and substance. This includes oversight and review of direct and indirect allocation of costs between regulated and non-regulated operations, and review of restating and pro forma adjustments in this general rate filing. While I am not directly responsible for the creation of the underlying source documents, including the general ledger, payroll registers, billing reports, fixed asset ledgers, time studies, and so on, I am generally familiar with the processes, criteria and components in their creation. Throughout the procedural schedule for this suspended rate case, I will coordinate the Company's work with our outside consultants. I am also the first point of contact within the Company to coordinate our responses to discovery requests.

Q. How long have you been working with the Company?

A. I have been with Waste Connections since 2001, and am well versed in all matters accounting, finance and regulatory ratemaking within Waste Connections. This is my first adjudicated rate case with the Company at the Commission.

Q. How are you intending to characterize or address various adjustment categories to be presented in your testimony?

A. As the rate proponent, the Company obviously files first, but this is only after a rigorous audit by the Commission staff and the regulated solid waste collection company which generates considerable communications between company representatives and staff. Thus, in this process, if the Commission ultimately decides to issue an Order of Suspension there has already been a lengthy exchange of information and communication between Staff and the Company. Because of that sequence, the Company appropriately characterizes the proposed adjustments in this general rate case as those upon which, after initial audit, it believes there was no dispute, ones that it believes there are at least some remaining issues and those that remained fully contested up to the formal suspension of its filing on December 21, 2023. In so classifying the adjustment types, it intends no presumption or preemption of the other parties' positions, but in the interest of organizing and streamlining its presentation, ultimately devotes the majority of its focus to items/issues/calculations that it believes led to the impasse on the overall revenue requirement calculation which is featured in this proceeding.

Q. With that qualification noted, please summarize the organization and topics of your testimony in this docket.

A. I will testify on the full aspect of this rate case, both before and after suspension. As such, my testimony will describe:

a. General overview of the Company's experience and status with the history of this rate case since filing on September 15, 2023.

b. Explanation of adjustments the Company believes Staff and the Company had previously resolved and/or are not in dispute to the Company's knowledge.

c. Explanation and substantive defense of adjustments the Company disputes. These adjustments include:

i. Disallowance of insurance claims expense;
ii. Removal of work-performance, metric-based compensation, (also referred to as incentive pay);
iii. Removal of travel-related expenses, including lodging, meals, automobile mileage reimbursement and off-site meeting expenses;
iv. Removal of company specific severance pay; and
v. Removal of other contested items.

d. The overall revenue requirement now requested in this case and the necessity of the proposed increases to the on-going financial health of the Company, and the need for interim rates while we resolve the disputed items.

Q. Who are the other witnesses presenting testimony supporting the Rate Case?

A. Mr. Mark Gingrich, Rainier (Northern Washington area) Division Vice President of Waste Connections will also provide testimony. He will address many of the topics outlined in my testimony from an operational and safety perspective. Finally, Mr. Branko Terzic, a regulatory consultant with Berkeley Research Group will address two of the larger challenged adjustments in this case: insurance premiums/casualty loss and severance pay.

II. BACKGROUND ON HISTORY OF THIS PROCEEDING

Q. Why has the Company not filed a general rate case before now, since its last one was in 2011?

A. There are a number of circumstances which created this gap. In abbreviated form, they include: a move and relocation of all our administrative offices within the territory, the loss of a contiguous city contract in Port Angeles which caused extensive rerouting of both regulated and nonregulated services, a dispute with the City of Port Angeles over the operation of our transfer station, continuous overlapping service by an unauthorized competitor since 2011 which diverted revenues from two large industrial generators resulting in prolonged and expensive administrative and judicial litigation upon which Olympic ultimately prevailed in 2022. In short, the concept of a representative test year in that whole period was challenging. The Commission Order on approval of changes to Tariff Item 260 in 2022, involving those two industrial generators, included a mandate to submit this filing which resulted in the current test year analysis.

Q. Can you explain how the test period of August 1, 2022 through July 31, 2023 was selected by the Company?

A. Yes. Recall that the Commission issued Order No. 2 in TG-210912 that required the Company to file a general rate case (as subsequently extended) no later than November 15, 2023. To ensure the Company met the Commission's filing deadline, the Company selected the then most current test period as appropriate in this proceeding. This period included some normal but infrequent expenses which are difficult to predict.

Q. Is this test period typical and representative of other periods of operation?

A. Yes, but any test period will contain routine expenses and events which were unforeseen by the Company and can require large expenses to be incurred and recognized. The test period chosen is representative as it contains both. To recognize the large, unforeseen expenses, the Company amortizes those costs. These amortization adjustments are discussed and addressed below.

III. BACKGROUND ON THE INITIAL GENERAL RATE CASE

Q. Have you assigned an exhibit number to the original rate filing?

A. Yes. The underlying original rate case as docketed in TG-230778 is submitted with my testimony as Exhibit JW-3C "Original Rate Case Submittal - Olympic GRC Pro forma 7.31.2023 (C)."

Q. Could you provide an explanation of how that original filing, attached here as Exhibit JW-3C "Original Rate Case Submittal - Olympic GRC Pro forma 7.31.2023 (C)" was prepared, including a brief description of restating adjustments?

A. Yes. The Company's filing was prepared pursuant to the workpapers rules described in WAC 480-07-520. In that context, preparation of the Company's original rate filing began with the original book of record income statement and balance sheet. We performed a diligent review of the details of each revenue and expense account to formulate the appropriate restating adjustments to arrive at a restated income statement for the rate filing.

<u>Restating adjustments, as described in WAC 480-07-520 (4)(a)(i), are as follows:</u>

1) Restate book of record revenue to detailed billing records, or commonly known in this practice as "Price Out" revenue. The adjustment is a ($44,145) decrease to the book of record revenue.

2) Identify and reclass Long Haul line of business driver and mechanic hourly wages, parts and materials, tires, fuel, oil, and grease expense into a separate expense line item to appropriately classify the book of record into lines of business necessary in this rate filing. There is no financial impact to the book of record. These reclasses are for rate filing presentation purposes.

3) Identify and reclass Material Recovery Facility ("MRF") hourly wages, salaries, building repairs, outside repairs, and fuel into a separate expense line item to appropriately classify the book of record into lines of business necessary in this rate filing. There is no financial impact to the book of record. These reclasses are for rate filing presentation purposes.

4) Identify and reclass disposal pass-through (definition: disposal billed directly to drop box customers) into a separate expense line item for clarity. There is no financial impact to the book of record. This reclass is for presentation purposes.

5) Increase book of record salary expense for the Company's portion of Division Vice President and Division Controller compensation that was booked to these employees' home payroll district. The adjustment is a $17,513 increase to the book of record.

6) Normalize legal expenses by amortizing test period Mill Haul defense and transfer station feasibility study legal fees over 3 years. The adjustment is a ($47,703) decrease to the book of record.

7) Reduce Corporate and Region Overhead expenses for unallowable expenses. The adjustment is a ($215,868) decrease to the book of record.

8) Restate bad debt expense accrued to actual bad debt, based on actual bad debt incurred and recovered. This restating adjustment is needed to calculate the actual bad debt expense percentage for input into the Lurito-Gallagher model. The adjustment is a $7,612 increase to the book of record.

9) Restate WUTC fees, as booked, to actual based on revenue shown on the Price Out. The adjustment is a ($6,452) decrease to the book of record.

10) Remove unallowable costs, including contributions, community sponsorships, and fines. This is a ($5,974) decrease to the book of record.

11) Restate book depreciation expense to regulatory depreciation expense by removing depreciation expense for assets that became fully depreciated during the test period and restating depreciation expense for 12-months for new assets that will be used and useful as of the effective date of new rates. The adjustment is an increase of $143,666 in depreciation expense and proportionate net book value revenue requirement impact.

12) Normalize transfer station feasibility study expense by amortizing over 3 years. The adjustment is a ($231,551) decrease to book of record.

13) Reclass B&O tax expense from the Rebate & Revenue sharing account to Taxes & Pass Thru fees. There is no financial impact to the book of record. This reclass is for rate filing presentation purposes.

14) Normalized lease option expense related to a potential new transfer station by amortizing over 3 years. This adjustment is a decrease of ($26,667) to the original book of record.

Q. Was the next step then to prepare Pro forma adjustments? If so, please explain those adjustments.

A. Yes, we used known and measurable information to determine and calculate the pro forma adjustments needed to adjust the test period for forward-looking rates.

Pro forma adjustments, as described in WAC 480-07-520 (4)(a)(ii), are as follows:

1) Adjust book revenue and disposal expense for the 12-month impact of the Jefferson County disposal fee increase, effective October 1, 2023, the Mill Haul disposal fee

increase, effective July 1, 2023. There is no impact on the revenue requirement aside from the margin assigned to the expense by the Lurito-Gallagher model.

2) Adjust all wage expenses and related payroll taxes to the most recent, known, and forward-looking pay rates and staffing levels. This adjustment is an increase of $97,783 to the original book of record.

3) Adjust fuel expense to the most recent and known price per gallon. This adjustment is an increase of $78,460 to the original book of record.

4) Increase the book of record for an insurance claim arising from an incident that occurred during the test period but not settled and recorded on the book of record until after the test period. We amortized the claim over 5 years per conversations held with Staff prior to filing this rate case. This normalized adjustment is an increase of $453,000 to the original book of record.

5) Adjust the book of record for the projected cost of customer notifications, as required by RCW 81.28.050. We normalized this expense by amortizing it over 2 years. This adjustment is an increase of $5,770 to the original book of record.

6) Adjust group insurance expense for the increase in the employer portion of health insurance costs. This adjustment is an increase of $10,878 to the original book of record.

Q. WAC 480-07-520(4)(d) requires companies to provide a detailed separation of all revenue and expenses between regulated and nonregulated operations, should nonregulated operations represent more than ten percent of total company test period revenue. Is that true of Olympic Disposal?

A. Yes. The Company has nonregulated operations that represent more than ten percent of total company test period revenue.

Q. Given your response to the question above please explain, in general terms, how you determined regulated and nonregulated revenue and expense for this rate filing.

A. Revenue is based on actual billings reported from the Company's billing system. At inception of service, each customer is assigned a bill area based on their service location that designates them as a regulated or nonregulated customer. The billing system's detailed revenue reports are the basis for the Price Outs included in our original rate filing.

When possible, expenses are directly identified and categorized as regulated or non-regulated. If actual assignment of expenses is not possible due to the shared nature of the expense, we assigned an allocator to the expense account to allocate the expense between regulated and nonregulated. As a general rule, operational expenses are allocated using percentages derived from a route time study, and general and administrative expenses are allocated using customer counts. The allocators we used in the original filing are shown below.

	Abbreviations	Clallam (UTC)	Jefferson (UTC)	Mill Hauls (UTC)	Non-Reg	Total
Driver Hours	DH	35.73%	18.26%	4.37%	41.64%	100.00%
DH excluding Mill Hauls	DH Haul	37.37%	19.09%		43.54%	100.00%
Long Haul Hours	Long Haul	8.66%	0.00%	81.23%	10.11%	100.00%
Revenue	REV	40.03%	15.02%	8.86%	36.10%	100.00%
Customers	CUST	40.16%	14.09%	0.00%	45.75%	100.00%
	BILLED CUST	46.66%	20.41%	0.01%	32.92%	100.00%
	COMM CUST	39.60%	29.65%	0.00%	30.76%	100.00%
	CONT Count	45.21%	13.75%	0.00%	41.03%	100.00%
Recycle Ton	RTONS	30.62%	5.86%	0.00%	63.52%	100.00%
MRF Operated Expenses	MRF	46.14%			53.86%	100.00%
Actual	ACT					

Column D on the "Master IS" tab of the original filing referenced above indicates the allocator used to apportion each expense account between regulated and nonregulated operations in arriving at the initially proposed results of operation and requested revenue requirement on September 15, 2023.

Q. Could you provide an overview of the Company's experience and perceived timeline in this rate case specifically just prior to, and after, the original proposed effective date of November 1, 2023?

A. Yes. One of the large normalization items the Company flagged in advance was a large casualty loss of approximately $2 Million (roughly 10 percent of Olympic Disposal's total annual revenues). Prior to filing, the Company reached out to Staff to seek guidance on the accounting treatment of the large casualty loss. Staff then recommended that the Company treat the matter similar to previously resolved insurance claims and amortize it over five years. The Company filed the case on September 15, 2023 following Staff's guidance. The case was docketed on September 25, 2023. Staff auditor Benjamin Sharbono was assigned to the docket. Mr. Sharbono began informal data requests on September 27, 2023. Mr. Sharbono's primary contact with the Company was Brian Vandenburg, Pricing Analyst. On October 16, Mr. Sharbono delivered a workbook with Staff's initial findings and analysis of the filing. Upon its receipt, the Company was surprised and concerned to find a number of expenses denied in that workbook that Staff auditors typically allow. Among them were a 100 percent (total) rejection of the approximate $2.0 million casualty loss and another "large" claim in a prior year, with a recognition of a three-year average of the subjectively selected three-year period.

Q. Were you able to meet with the Staff to discuss your filing after the workbook with their adjustments was provided and what was discussed?

A. Yes we were. Staff held a meeting with the Company on October 17. This was a virtual meeting, and a copy of my on-screen presentation at that meeting is found in Exhibit JW-4 "October 17 Meeting Slide." Jing Roth, Deputy Director, Tiffany VanMeter, Section Lead, and Mr. Sharbono attended the meeting on behalf of the WUTC. Brian

Vandenburg, Mark Gingrich, Division Vice President, Adam Balogh, Division Controller, and I attended on behalf of the Company. There I reminded attendees that our rate adjustment, originally at 16%, was not outsized, given cumulative inflation since 2011. We defended severance as an important business tool that, while used infrequently, should be allowed in rates. We spoke about concerns that Staff's approach to how their treatment of our compensation program and travel expenses in their proposed denials of those expenses ventured toward prescribing to us how to run a garbage business. Staff seemed to want irrefutable proof that the travel and incentive programs were of benefit to the ratepayer. The Company's general position is that, while it does typically not possess on-point documented studies, the expenses should not be denied because they were truly incurred, and that with many years of experience in this industry, Company management is confident the incentive plans add value equal to or greater than their cost. Much of the remainder of the testimony from me and the other witnesses will expand on the precepts. At that meeting, I also made clear that Staff's decision to deny the significant insurance claim was not something the Company could reasonably absorb or accept.

Q. Were you provided an explanation for Staff's initial rejection of these items?

A. Yes. Mr. Sharbono offered and referenced a few basic lines from the textbook "Principles of Utility Rates," by James Bonbright, but in our view, respectfully, he did not rigorously apply the facts of the case to those principles. As we understood it, subject to hearing more in Staff's Response Testimony, his position was that a claim of this magnitude is unusual and not likely to recur. Consequently, in his view, it should not be entered into the revenue requirement, even in a normalized fashion. Regarding overall incentive programs, Staff had mixed conclusions and struggled with concerns over whether the incentive programs were more than compensatory and therefore not of benefit to the ratepayer.

Q. How did you respond?

A. We indicated that denial of this large expense put the entire Waste Connections' insurance low-cost, high deductible self-insurance model in jeopardy, and that the consequence of a denial could have dramatic consequences across all the Company's other regulated operations in the State of Washington. After further discussion, Staff indicated to us that they didn't have enough information about the insurance matter to consider a change in position. In the end, Staff and the Company agreed to extend the new effective date to December 1, 2023 to allow Staff to ask more questions and for us to provide additional information.

Q. What happened after that original extension?

A. After that initial extension, the Company and Staff had limited interactions and conversations, including another meeting between Staff and the Company on November 8. Unfortunately, little progress was made at that meeting. Staff provided the Company a subsequent workbook file, including Staff's proposed adjustments to the filing, on November 15, 2023. The Company and Staff remained unaligned on several of the adjustments presented by Staff at that time, which resulted in continuing impasse on the revenue requirement, Staff indicated it would propose to the Commission. Hopeful that additional time might also afford the parties time to resolve their differences and to provide any additional information required by Staff, the Company again agreed to extend the filing with rates to be effective now to January 1, 2024.

Q. What occurred next?

A. On November 17, 2023, the company received a series of additional informal data requests from Staff to which Olympic Disposal responded on November 30 and December 1, immediately upon return from the Thanksgiving holiday.

Q. What happened after your submission of responses to those informal Data Requests and when did you hear anything back from the Staff?

A. As the January 1, 2024 effective date was nearing and with the Open Meeting less than a week away, the Company inquired of Staff regarding their current position on the filing and perceived disputed adjustments with the lengthy and detailed responses to the informal data requests analyzed and served two weeks prior. Staff then responded by sending the Company a file that appeared to be the October 16, 2023 proposal previously sent to the Company. The file was accompanied by a note from Mr. Sharbono stating, "Since the Company and Staff were unable to agree to settlement, this is the workbook Staff provided prior to settlement discussions." This workbook is included as Exhibit JW-5C 230778-GRC Murrey's Olympic-Staff Wkbk-10-16-2023-Staff Original (C)." As the last workbook the Company received from Staff, this is the document from which I identify and quantify the adjustments with which we now concur or dispute with the Staff

Q. Is there anything that specifically concerned you about the timeline you describe above?

A. Yes. After the Company agreed to extend the effective date to December 1, 2023, Staff and the Company had negligible discussions regarding either the status of the rate case in general, or the perceived disputed adjustments. In short, Staff appeared disinterested" in further communications which adversely affected the prospects of resolution. Staff's communicated position on the status of the pending rate case in our view was simply in limbo during this critical time period. In any event, the case was formally suspended by the Commission at the December 21, 2023 Open Meeting.

Q. How did these delays in the rate case resolution impact the Company's potential request for interim rates?

A. As originally filed, the Company requested an increase of approximately $500,000/17% for Jefferson County regulated operations, approximately $1,100,000/15% for Clallam County regulated operations, and approximately $281,000/16% for regulated Mill Haul operations. Disputed adjustments aside, it is clear the company was and is operating below "sufficient" levels. Six months have passed since the Company filed this rate case. As the Procedural Schedule currently stands, the rate case may not be settled for an additional eight months (November 2024). In our view, this is not a sustainable interval for a Company to endure financial hardships that are occasioned by prolonged underearning. Underearning is also compounded by inflationary and fiscal pressures which could threaten reinvestment in the Company in the ordinary course of its operations.

Q. What hardships have been identified by the Company as a result of suspension?

A. Currently, Waste Connections shareholders are foregoing approximately $100,000 of monthly revenue increases that the Company believes are not contravened or challenged. As of February 29, 2024, four months of additional revenue is forever lost to attrition in the regulatory system due to suspension.

Q. Please briefly characterize the original general rate case filing as a starting point for your discussion which follows .

A. Like all general rate cases, the Company starts with the Company's general ledger for the chosen test period. Because Olympic Disposal operates in a combination of regulated areas as well as in cities with separate contracts, a series of allocations of revenues and expenses are made. Driver hours, disposal tons, customer counts, specific identification are the most common tools we use to allocate between service areas. Results of the allocation work are summarized in the exhibit. The Company is not aware of any outstanding concerns about the allocations, so I will not address them further here. If Staff chooses to raise concerns on allocations, the Company is prepared to discuss them.

IV. DISCUSSION OF PREVIOUSLY UNCHALLENGED & DISPUTED ADJUSTMENTS

Q. What is your starting point evolving out of that initial filing for addressing the current case disputes and adjustments in question as you understand the current case configuration?

A. As mentioned earlier, our starting point is workbook Mr. Sharbono sent on December 12 and was previously introduced as JW-5C "230778-GRC-Murrey's Olympic-Staff Wkbk-10-16-2023-Staff Original (C)." The adjustments listed on the "Staff Calculations" tab are the adjustments and subject matters I will attempt to outline below. The Company will of course respond to any additional proposed or challenges to these adjustments and Staff treatment thereof when presented through Staff's response testimony.

Q. Can you explain the adjustments Staff proposed that the Company agrees on, and believes are presently undisputed?

A. Yes. Currently, the Company's understanding is that Staff's proposed adjustments outlined in Exhibit JW-6C "Summary of Undisputed Adjustments (C)" remain uncontested by Staff and the Company. Other than receiving and responding to informal clarifying questions from Staff, we have no present indication of concerns beyond those raised or featured in the October 16 staff workbook. There is another set of two technical adjustments that Staff proposed but in subsequent discussions we understand are eliminated. One is a relocation expense adjustment that was not correctly linked within the workbook. The second adjustment is the restoration of the pro forma wage adjustments that I explained earlier in my testimony. Staff asked for additional clarification that we have now provided. Again, it is my understanding that those two items are not at issue. Consequently, I will not pursue detailed discussion on these original adjustments here, although I again reserve the Company's right to discuss them in more detail should Staff challenge them later in these proceedings.

Q. You just referenced those two items from Staff's file that in subsequent discussions you understood there was agreement to retract. Can you please just describe those two adjustments?

A. Yes. The two items were a relocation adjustment and Payroll as follows:

Relocation: In "Staff's Calculation" tab, staff made an adjustment to annualize relocation expense for two employees that were hired midway through the test period. Staff made the calculation but did not link up the amount to the Master IS tab in order to recognize the expense. The Company made the adjustment in JW-7C "230778-GRC-Murrey's Olympic-Staff Wkbk-10-16-2023-Company Offer (C)."

Payroll: Staff made their own calculations based on the payroll register provided by the Company. In Staff's calculation they excluded bonuses from their calculation. Staff subsequently removed bonuses in the "Staff Calculation" tab. When Staff recognized that they had removed disputed bonuses twice, Staff agreed to restore payroll calculation to the Company's original submission.

Q. During the audit, based on the workbooks submitted to you by the analyst was the Company under the impression that Staff had also proposed to agree on the adjustments shown in JW-5C "230778-GRC-Murrey's Olympic-Staff Wkbk-10-16-2023-Staff Original (C)."

A. Yes. Again, my understanding is that the Staff adjustments, along with the Company's pre-filed adjustments shown JW-5C "230778-GRC-Murrey's Olympic-Staff Wkbk-10-16-2023-Staff Original (C)" together made up Staff's proposed adjustments on October 16 that would have been put forward for Commission approval effective November 1, had the Company accepted them.

V. ADDITIONAL DISCUSSION OF HIGHLIGHTED CONTESTED ADJUSTMENTS

Q. In general terms, could you please describe, in the Company's view, the adjustments the Company and Staff were not able to reach agreement on in this rate filing?

A. Yes. A brief description of each contested adjustments the Company currently understands, is shown below. These are also summarized in *Exhibit JW-8C "Summary of Disputed Adjustments* (C)."

1. <u>Insurance Claims Expense:</u> Staff appears to have wholly removed an insurance claim from allowed expenses, deeming it extraordinary. Although any type of insurance claim, large or small, is unfortunate, they are a recurring risk and unfortunate cost of operation in the transportation industry. Per our initial discussion with Staff, the Company maintains that the appropriate treatment of the claim is to include the entire cost of the claim normalized over five years.

2. <u>Work Performance Metric-Based Compensation.</u> Staff proposed to remove compensation amounts for employee "on-boarding" and retention. Many of these "incentive pay" features have developed recently amidst the post-pandemic national labor shortage environment and are particularly pertinent to and necessary for "front-line workers" who lack the option to work remotely. Staff questions other incentive programs as well. Safety culture program compensation, customer service "secret shopper/Tooty"

incentive[1] compensation, and bad debt collections compensation. Programs are also in place to encourage employees to conduct themselves in a manner that benefits the customers and overall work experience, while enhancing tenure and stability of the Company workforce.

3. <u>Removal of Travel-Related Expenses</u>: Staff proposed to remove all travel-related expenses including airfare, vehicle mileage, lodging, meals, and offsite Company meeting expense. Olympic Disposal, as part of Waste Connections, is able to connect with experts employed by the division, region, and corporate entities to enhance service delivery and reduce the dependence on third party vendors. At times, travel is required to or from the site for the site to benefit from those services. The division vice president and controller must visit the site to ensure that operations are running smoothly. IT professionals must come on site to ensure the quality of the IT network and secure the facility. Engineers travel to the site to test compliance with environmental laws and affect necessary changes. Site employees travel to hub sites in Fife, Vancouver, and occasionally elsewhere for training on leadership, vehicle maintenance, and other topics of importance the effective operation of the Company. If we did not utilize the Waste Connections network, we would have to retain third parties for much of this work. The third parties might or might not charge travel fees, but they would charge mark-ups and cost extra time and money because they would lack the familiarity and integrated company knowledge held by company employees. Thus, the Company does not view

[1] Customer service representatives are "silent shopped" by a third-party vendor—The Tooty Company—and provided incentive pay for an excellent rating. This is often referred to as the "Tooty Incentives" within the Company.

these costs as excessive, unusual or unallowable for ratemaking. They are reasonable, known, measurable, and common business expenses incurred when employees are required to travel for work-related meetings, training and functions and we believe should be fully allowed in the revenue requirement.

4. Company Specific Severance Pay: It is the Company's understanding that Staff previously proposed to remove all severance pay expense from this rate case. Although severance pay can be an unfortunate outcome of employment separation, it is undeniably a common business expense incurred to mitigate future potential liabilities, particularly under Washington law which I understand affords plaintiffs the right to recover all attorney fees and costs if it is awarded even a dollar in damages for wrongful termination. Severance pay is thus a tool to mitigate risk and place a finite limit on damages exposure along with broad releases from future litigation. The Company therefore believes this prudent expense should be fully allowed and amortized over three years.

5. Safety Event Expense: Staff removed all safety event expenses, stating "it is not a necessary expense for operation of collection services." This event is the culmination and execution of the Company's #1 value – Safety. Clearly, an expense that supports a company's efforts to prioritize safety for its employees, customers, and the community at large is of benefit to the ratepayer. Mark Gingrich will provide more information and advocacy for its rational inclusion in rates.

VI. IN-DEPTH DISCUSSION OF FOCAL EXPENSE ADJUSTMENTS

1. Insurance Expense Amortization

Q. Can you provide more background and information on the significant insurance expense you request to recover in this rate case?

A. Yes. Waste Connections adopts a low premium-high deductible insurance model. In effect, Waste Connections self-insures itself for the first $5 Million in exposure. The Corporate entity pays general liability premiums to third-party insurers and distributes the premium to Olympic Disposal and other Waste Connections' entities based upon the size of their truck fleet and payroll expense. When an incident occurs, it is reported to internal risk managers and a third-party claims administrator (ESIS). Claims beyond a threshold are managed primarily by ESIS. ESIS sets reserve amounts and causes the reserve charge, or estimated cost, to be recorded on the entity general ledger for regulatory reporting purposes. As more information about the claim is gathered, ESIS changes the cost estimates and the expense at the local company level is increased or decreased accordingly. Since this particular claim fell below the Company's policy deductible with insurer CHUBB, the claim remained between ESIS and Company management administration. Exhibit JW-9C "SDR-1 Insurance Program" provides more extensive description of Waste Connections' insurance program and polices that we provided to Staff in their first discovery request following suspension of this filing.

Q. Please offer some factual background on that casualty loss issue in this case.

A. Certainly. We previously provided staff with various data surrounding this expense in late November, including the Washington State Patrol accident report, copies of the original invoice for the Company truck involved in the loss and information on the Olympic employee driver (who was not cited) operating the vehicle on August 8, 2022 at the time of the accident, and a copy of the confidential settlement agreement and release that resolved the claim after mediation before the case was formally litigated. These confidential documents are now attached to my direct testimony and marked Exhibit JW--10C "State of WA Accident Report (C)," Exhibit JW-11C – "Truck Invoice (C)," Exhibit JW-12C – Company Accident Report (C)," and Exhibit JW-13C – "Incident Settlement Agreement (C)," and address the various details of the loss.

Q. Where and when did this incident occur?

A. The incident occurred in our regulated service area during the test year. But even if the event had not occurred in the test year, the Company believes and asserts that a normalized portion of the cost should be allowable in rates.

Q. How is the cost of this claim handled in the various versions of the revenue requirement workpapers?

A. While the claim was not settled at the time of filing September 2023, the Company signed a definitive settlement agreement and release with the estate of the decedent in early December 2023 prior to any formal litigation of the matter. And, the latest revenue requirement put forward by the Company includes an adjustment for that definitive settlement that reduces the original amortized insurance expense to the final settled amount.

Q. Did the Company allocate the entire deductible charge to the regulated ratepayers?

A. No. At the Company level, the Company's historical approach is to acknowledge insurance charges and then use the standard allocators to allocate the expense over both regulated and unregulated areas. In this case, the charge was distributed approximately 60% to the regulated area based upon the driver hour allocator. The same approach would have been used had the incident occurred within the city limits of an unregulated entity. This approach is consistent with treatment of most operating expenses.

Q. Have you had other experiences where Staff has denied the Company insurance expense in the past?

A. As this is the first rate case filed for Olympic Disposal as described above in many years, and I was not involved with earlier filings prior to 2011, I do not have specific experience with regard to Olympic Disposal. I can, however, speak to Staff's treatment of claims with other regulated operations of Waste Connections of which I am familiar. In my 13 years working in the Pricing Group that participates in every regulated general rate filing, I do not recall a single time when Staff ultimately denied an insurance claim. There have certainly been discussions and settlements about amortization periods in a small number of cases where the deductible charges were high. Recall also that when we reached out to Staff early in this Olympic filing, the discussion was not about whether the claim would be allowed. It was about determining a reasonable amortization period. Staff gave no indication that the claim would be wholly denied until Mr. Sharbono raised concerns with Mr. Vandenburg during informal discussions in early October.

Q. Is there anything else about this in your view that separates this case from the other claims that have been incorporated into revenue requirements approved by the Commission?

A. Yes. This claim is quite large relative to other cases we have experienced. Staff has not given us evidence of any other differentiating factor.

Q. Aside from the size of the claim did Staff offer any other objection to the insurance claim?

A. Yes. Staff indicated that a claim of this magnitude is not recurring. Throughout this rate case, Staff has also used the term "non-recurring expense" similarly to the "benefit to the ratepayer" analytical premise as a generalized/fallback rationale to disallow certain expenses, as was the case with severance expense. Yet no two test periods are substantially the same. While a twelve-month interval is a logical and convenient window to capture most operating expenses in a typical rate year, there are some irregularly occurring but normal business expenses that do not fall within the convenient 12-month test periods. Simply because timing falls outside these periods does not eliminate the costs or put them beyond the shared obligation of the ratepayer. Utility ratemaking principles as, Mr. Terzic explains, make accommodations for these kinds of expenses. Here, we earnestly believe Staff has relied too much on the idea that a cost is not likely to appear in the next twelve months to eliminate recovery. An obvious alternative treatment to denial of an infrequent but "normal," expense is "normalization" by amortization. Also, in his testimony, Mr. Terzic addresses the ratemaking philosophy of how these kinds of expenses should be handled from the perspective of ratemaking treatises, some other recent Washington regulated general rate cases for solid waste companies as well as the practical approach taken by other Commissions in similar scenarios. The Company's proposed approach and advocacy for allowance of insurance is consistent with Mr. Terzic's understanding of these seminal ratemaking concepts.

Q. Since cost seems to be a factor, have you also considered whether the ratepayer would benefit from a low deductible insurance policy?

A. Yes. The Company does not believe the ratepayer would benefit from a low deductible policy in the long run. A low deductible policy comes with a significantly higher premium than under the Company's current approach, and this effect is also touched upon in Mr. Tezric's testimony.

Q. In the course of this filing during December, 2023, did you seek to obtain information on analogous liability insurance premium expenses as a comparator?

A. Yes. In response to informal discovery, the Company asked its insurance broker to assemble a quote for insurance if it were to cap the deductible at $50,000 (a very low deductible in this circumstance). We did not process this quote all the way to the point of binding the policy, and the broker also indicated that underwriting might not ultimately accept such a low deductible given the overall amount of liability payouts by the transportation industry in recent years.

Q. What did you conclude with respect to this alternative quote?

A. If the policy could be written as quoted, we found that the increase in monthly premiums would only amount to slightly less than the five-year normalization of the claim initially proposed by the Company. For the next five years then, the consumer would pay roughly the same amount under both treatments. After five years, however, the cost to the ratepayer would drop precipitously under the Company's proposal, whereas the high deductible premium policies would remain and likely increase over time. Given the Company's investment in safety and the low cost amount of claims in the past, it is unlikely to experience a claim of this size in the next five years. We strongly believe ratepayers are better served by our investment in safety, high deductibles, and low premiums than by the low deductible approach. The Company's preferred approach here merely requires that ratepayers share in the cost of deductibles in addition to enjoying low insurance premiums. To do deny a deductible charge is to unfairly and disproportionately balance the risks and rewards between the ratepayers and the shareholders.

Q. Do you have any further substantiation on this topic of alternate insurance policy quotations?

A. Yes, please **see** Exhibits "JW-14C CHUBB Quote (C)" for a copy of the insurance quote reference from CHUBB and "JW-15C Epic Insurance Broker Quote-$50k (C)," both with $50,000 deductibles.

Q. Do you have any other metrics to observe on this proposal?

A. Yes. If the Company were to purchase insurance from CHUBB, liability insurance premium expense would rise to approximately 2.3% of regulated revenues in future years. If the Commission were to adopt the Company's recommended position, insurance would cost approximately 2.7% of revenue for five years, after which time insurance costs should fall back as a percentage of revenue to approximately one percent of revenues thereafter.

Q. Have you performed any broader calculations illustrating this conclusion?

A. Yes we have. Exhibit JW-16C "DR8-4 Insurance Review (C)" demonstrates how the Company arrived at this conclusion. The exhibit lists the cost of liability insurance for eight Washington Waste Connections regulated companies at the time of their last general rate filing expressed as a percentage of revenue. The average is 0.8% of revenue. If the Company were now effectively forced to manage risk differently by purchasing insurance for each of these companies, and ongoing insurance costs increased to 2.3% of regulated revenue, as indicated by the quotes received for Olympic Disposal, the ratepayers of these eight regulated entities might see a go-forward additional insurance cost of more than $3.5 million per year with no abatement. In the Company's view, that $3.5 million per year would far be better spent investing in people, equipment, lower service rates and environmental protection, among other higher and better uses. Considering recent annual premium increases for liability insurance that we see in the national media, that annual figure could be considerably higher in the future.

Q. What is the Company's ultimate conclusion on this adjustment?

A. The Company's policy position is that its customers have benefited from low insurance premiums in rates for many years. It is reasonable to ask customers to shoulder a portion of the burden when a material, (thankfully rare) casualty loss occurs in the ordinary course of its business. The Company believes Staff should accept this normalization adjustment and allow deductible charges into the rates. In the case of abnormally high losses, a reasonable three to five year normalization approach is warranted. While the Company generally prefers a three-year normalization, the size of this claim and the impact on the customer rate likely lends itself to the longer recovery period of five years.

2. Performance based compensation as a Contested Expense

Q. What evidence exists showing the Company's policy for work-related, performance-based compensation programs?

A. The attached Exhibits provide this illustrative information:

- JW-17C Accounts Receivable Collection Program (C)
- JW-18C Safety Culture Program (C)
- JW-19C Employee Referral Program (C)
- JW-20C Stay On Incentive Program (C)
- JW-21C Tooty Incentive Program (C)

Q. Can you explain why the Company believes these incentive program expense should be reflected in rates, and the benefits to customers?

A. Yes, for additional elaboration on this, please refer again to the direct testimony of Mr. Mark Gingrich.

Q. Is the company able to demonstrate how these incentive programs benefit customers through empirical data?

A. The Company asserts that every goal outlined by these programs—improved safety, lower DSO (Days Sales Outstanding, a measure of efficiency in accounts receivable), bad debt expense reduction, employee retention—all benefit the ratepayer. Incentives are not paid unless a goal is achieved at the individual level. In the aggregate, motivated and active participating employees affect overall efficiency and costs. Incentive programs are not developed or designed for every performance task or employment circumstance. Incentive programs reinforce and target focus and diligence via positive feedback, financial gain, and peer pressure. This has been particularly true when Waste Connections acquires operations from previous private ownership. In general, safety incident rates tend to fall, and DSO and bad debt statistics improve between the acquisition year and the second anniversary of Waste Connections' ownership. We attribute these improvements to closer operational scrutiny and oversight by Waste Connections, which includes the implementation of the programs outlined above.

Q. Do you have any empirical data to support this premise?

A. Yes, Confidential Exhibit JW-22C "Peninsula & Waste Control Before After" provides a comparison and illustration of statistics between Year One and subsequent years for two private companies recently acquired by Waste Connections in Washington State—Peninsula Sanitation (acquired in late 2021) and Waste Control (acquired in June 2020). There are of course multiple variables that impact any one statistic, and progress is not always linear. The trend line here is favorable, however, which we believe also establishes this premise and suggests these incentive programs yield quantifiable ("known and measurable") outcomes, enhancements and improvements.

3. Travel Costs as a Contested Expense

Q. Can you next explain why the Company believes business travel expenses should be recovered in rates, and any potential benefits to customers?

A. For one thing, Olympic Disposal is located at the extreme north end of the Olympic Peninsula. Geographically, it is remote and removed from the resources and business activity that is more accessible in the I-5 corridor. While Staff may not observe significant travel expense when reviewing cases for other regulated solid waste companies on the basis of geography, even Waste Connections affiliates, they must recognize that meaningful visits to or from Olympic's territory require more overnight stays and meals than a more centrally-located, less rural operation. Because Waste Connections relies heavily on internal experts who are familiar with our facilities, policies, and equipment, employees must travel to and from the site. As I stated earlier, we trade off the cost of travel expense for the benefit of great expertise and reduced third-party costs. Please refer to the direct testimony of Mr. Mark Gingrich for more information supporting business travel expenses for further elaboration on these topics.

Q. Did the Company provide Staff with justifications for the travel transactions?

A. Yes. During Staff's last informal data request number eight in November, Staff requested that we provide information for all travel expenses that were previously unidentified or excluded from documentation in Question 10. We responded by filing the following, included here as JW-23C DR8-10 Travel - Company Narrative Response (C), and JW-

24C DR8-10 Travel - Details (C). In that exhibit, the Company included explanations for $65,197 of the total $71,787 travel and meals support. Of this total, $39,843 was related to providing transport, housing, and meals for employees working away from home to fill vacancies at the site. The costs were critical to provide supervisory oversight and drivers to ensure that the garbage could be picked up, and therefore of benefit to the ratepayer.

4. <u>Severance as a Contested Expense</u>

Q. Can you similarly explain why the Company believes company-specific severance expense should be recovered in rates, and whether there are any potential benefits to customers?

A. Severance is a rare but recurring expense that expedites management change when necessary, particularly when an operation is remotely operated by a small management team such as one like Olympic. Severance is much less expensive than the cost, delays and uncertainties of litigation that can be put forth by a disgruntled terminated employee even when there is no culpability on the part of the Company. Washington law also is favorable to the recovery of damages by Plaintiffs in wrongful discharge and employment claims litigation by allowing a successful employee who retains a single dollar in damages to recover all of his or her legal fees from the defendant employer. Mr Terzic also speaks about severance in his testimony and why it should here be included an allowable expense. .

5. <u>Other Contested Expenses</u>

Q. Finally, can you explain the "safety event" expenses, and why the Company feels those expenses should be recovered in rates, and whether they have any potential benefits to customers?

A. The company celebrates positive safety outcomes and prioritizes safety in a number of ways. Most importantly, the Company uses a variety of tools to keep safety at the forefront of our employee's minds. Daily tailgate meetings, and required reading are material attempts to implant safety values in the hearts of our employees. Rewards for safe operations over various periods (30 days, quarters, years) without reportable incidents encourages employees to operate safely to avoid undermining the success of the team. Finally, drivers who achieve exceptional safety and operational excellence can have the opportunity to participate in operator showcase events in which operators compete to be the best operator at their district, division, region, and potentially the Company. With these inherent, imbedded safety standards in mind, drivers are more likely to be alert and safety focused as the do their work along the roads of Clallam and Jefferson Counties benefitting all its citizens.

Q. Are there any other contested expenses you would like to address?

A. Yes briefly. The Company and other Waste Connection affiliates spend a small portion of their revenue on expenses we call "employee and community events." These expenses are an important part of our company culture and contribute to the productivity and quality of service provided by our employees. These expenses also reflect the evolving business climate in today's post-pandemic workplace where competition for workers is intensifying again, particularly in non-remote, "frontline" positions. To compete for employees, employers have increasingly turned to workplace activities and events to increase camaraderie and foster satisfaction and commitment to their continued employment.. The Company believes there is enough value to this set of expenditures that at least 50% of them should be allowed in the Olympic revenue requirement in addressing workforce stabilization concerns. Mr. Gingrich also speaks more generally about those developments and current retention challenges in his testimony.

VII. DISCUSSION ON IMPACTS TO THE CURRENT REVENUE REQUIREMENT

Q. Have you prepared the Company's revised computation of the revenue requirement and the results of operations as calculated by the Lurito-Gallagher Ratemaking formula that reflect the Company's current position as noted in your testimony?

A. Yes. Refer to Exhibit JW-7C "230778-GRC-Murrys Olympic-Staff Wkbk-10-16-2023-Company Offer (C)."

Q. Does the revised revenue requirement from the revised calculation differ from the original rate filing set forth in JW-3C "Original Rate Case Submittal - Olympic GRC Pro forma 7.31.2023 (C).")

A. Yes. The original requested increase in revenue requirement was $1,884,567/15.84% vs. $1,646,135/12.88% as now shown in Exhibit JW-7C "230778-GRC-Murrys Olympic-Staff Wkbk-10-16-2023-Company Offer (C)."

Q. Can you explain the adjustments made in Exhibit JW-7C "230778-GRC-Murrys Olympic-Staff Wkbk-10-16-2023-Company Offer (C)." **that caused differences from the revenue requirement originally filed?**

A. Yes. Brief itemized explanations are included below..

1. The Company incorporated the adjustments described in Exhibit JW-6C "Summary of Undisputed Adjustments (C)," as shown in the "Company Agreed" column.
2. The Company incorporated the adjustments described in Exhibit JW-8C "Summary of Disputed Adjustments (C)," as shown in the "WC Agreed" column.
3. After the initial filing, the Company was notified that the disposal fee in Clallam County was increasing effective January 1, 2024. The Commission approved the disposal fee increase, in docket TG-231007. The revised filing submitted as part of this testimony includes that very recent change in revenue and expense resulting from

the disposal fee increase. Adjusting the revised rate filing for this material item is necessary to ensure the Company earns the appropriate margin on disposal expense.

4. *Fuel adjustment– no more fuel lock.* A consequential change from the as-filed model to as-implemented rates includes a correction to a revised fuel expense calculation based upon a twelve-month rolling of fuel pricing required by Commission rule As a result of the delays in implementing rates under this docket, time has passed and Olympic Disposal has allowed a fixed price fuel arrangement, otherwise known as a "fuel lock," to expire on December 31, 2023. While the Company had relatively stable fuel costs until the lock expiration, it is now subject to the volatility of the marketplace. Neither the Company nor Staff have had recent experience in converting the fuel calculation from a lock plan to a market arrangement, and the convergence of numerous other open items on this docket have precluded the Company from having meaningful discussions with Staff about this important topic. In Exhibit JW-7C "230778-GRC-Murrys Olympic-Staff Wkbk-10-16-2023-Company Offer (C")we adjusted for fuel in the following manner. The Company calculated fuel costs from the rolling 12 months dating from March 2023 through February 2024. The Company came off the lock starting January 1, 2024. The Company then calculated March 2023-December 2023 fuel costs as if it were paid on the open market by taking the average open market fuel price from the index provided by Staff each month for the purpose of calculating Fuel Surcharges. The difference between the rolling twelve months and the calculated amount is the pro forma adjustment.

5. The Company anticipates coming to agreement with Staff on the appropriate fuel adjustment calculation under these unusual circumstances at a point close to the

implementation of new rates and necessarily by any compliance filing. That adjustment should reflect market rates over the immediately preceding 12 months as opposed to using the now superseded locked prices the Company paid prior to the expiration of the lock.

6. *Legal and consulting fees related to this suspended rate case.* Aside from Staff's fundamental decision to deny normalization of the casualty loss, the Company believes that resolution of the filing would have been possible on the other outstanding items and would not be generating significant professional fees at this stage. Nevertheless, as of February 28, the accrued rate case legal fees incurred on this general rate case matter are $36,385. March and April invoices will each likely be comparable to that total. Costs of the expert witness are expected to cost approximately $15,000 for pre-filed testimony. Cost of reply, defense and hearing preparation cannot be reasonably estimated at this point. It is likely the anticipated total cost of all professional rate case fees will be at least approximately $200,000. Because as noted, the Company expects to file general rate case in cycles of three years maximum, it therefore proposes to amortize rate case costs over a three-year period.

VIII. CONCLUSION

Q. Considering all of the above topics, do you have any final thoughts as an overview on the nature of the adjustments the Company is proposing in this proceeding?

A. Yes, as noted, we believe all these advocated adjustments collectively constitute reasonable expenses incurred by the company in the course of providing exemplary regulated services. We also believe the treatment of the expenses which we are proposing is consistent with past practices and with Commission decisions involving solid waste collection rates and charges. Finally, as Professor Goodman has noted, citing, *Missouri es. Rel. South Western Bell Teleph. Co. v. PSC of Missouri,* 262 U. S. 276, 289 (1923):

> …Under the just and reasonable standard, evidence of mismanagement may trigger a reduction in allowable costs and profits for a regulated company. Not every corporate expenditure is suspect under this standard. The directors [and management] of the regulated company may employ their judgment within a reasonable range of expenditures. An agency is 'not empowered to substitute its judgment for that of the directors of the corporation; nor can it ignore items charged by the utility as operating expenses unless there is an abuse of discretion in that regard by the corporate officers.'[2]

Our Company strives to properly oversee risk management and compensation decisions while containing its operating expenses and in that process, deliver and perform our regulated services as efficiently, expeditiously and safely as possible consistent with our public service obligation.

Q. Does this conclude your testimony at this point?

A. Yes, it does.

[2] Goodman, Leonard Saul, "The Process of Ratemaking," at Pg. 839, Public Utilities Reporting, Inc. (1998).