

Attachment A

The Criteria and Procedures for the Deferred Fuel Approach

Criteria:

- 1) The starting point at inception now will be the staff pro forma operating results of each company's most recent general rate case, provided that the 12 month test year in that case cannot be older than the twelve months ended June 30, 2004, and the effective date of that increase can be no older than October 1, 2004.
- 2) If implementing programs in the future, the starting point will be the staff pro forma operating results of each company's most recent general rate case. However the length of time between the 12 month pro forma fuel year establishing fuel costs imbedded in present rates and the currently proposed effective date of the company's first fuel component filing shall not exceed 24 months.

Procedures:

- 1) Companies participate in the deferred fuel component program voluntarily.
- 2) The decision to adopt the new deferred fuel approach is irrevocable.
- 3) The company must file a new, permanent tariff reflecting a revenue requirement excluding fuel as an operating expense. They must use uniform percentages by customer class to reduce existing rates. The total residential component should include recycling and yard waste, if those services are provided by the company. **See Example 1 below.**
- 4) In determining the new revenue requirement, the company must use the same Lurito/Gallagher curve, capital structure, revenue sensitive cost rates, debt and Federal Income Tax rates, and revenue price-outs that the staff used in the company's last general rate increase.
- 5) A fuel component must be proposed concurrently with the new tariff showing the percentages by customer class necessary to recover current fuel costs over the next 12 months. The residential component should also include recycling and yard waste, if those services are provided by the company. An OPIS index must be used to estimate current fuel costs. **See Example 2 below.**
- 6) If the net impact of the filings is an increase in rates, the company must comply with all normal customer notification requirements unless the company requests and the commission grants a waiver. In that case rate notification would appear on the first regularly scheduled billing after the effective date as approved by the Commission. All supplements must have at least 45 days between the issue and effective dates.
- 7) Assuming normal customer notification requirements, Fuel Component Supplements become effective no earlier than three months after the two months used to establish the most recent two month OPIS index as distributed by staff and made available to the industry. See the below table as a timing example:

<u>OPIS Index Months</u>	<u>File Date</u>	<u>Nominal Effective Date</u>	<u>Earliest 12 month Pro Forma Fuel Year ending</u>
January & February 06	March 15 '06	May 1 '06	April 31 '04
February & March 06	April 15 '06	June 1 '06	May 31 '04
March & April 06	May 15 '06	July 1 '06	June 30 '04
April & May 06	June 15 '06	August 1 '06	July 31, '04
May & June 06	July 15 '06	September '06	August 31 '04
June & July 06	August 15 '06	October 1 '06	September 30 '04
July & August 06	September 15 '06	November '06	October 31 '04
August & September 06	October 15 '06	December '06	November 30 '04
September & October 06	November 15 '06	January 1 '07	December 30 '04
October & November 06	December 15 '06	February '07	January 30 '05
November & December 06	January 15 '06	March 1 '07	February 28 '05
December & January 06	February 15 '06	April 1 '07	March 31, '05

- 8) Fuel Component Supplements expire after one year.
- 9) In each subsequent year, a new fuel component supplement must be filed immediately, with the additional consideration of including a true-up of actual incurred fuel expense during the last 12 months versus the amounts collected from customers – the deferred adjustment. **See Example 3 below.**
- 10) Companies must determine current (projected) fuel costs based on the **Oil Price Information System (OPIS) Tacoma Ultra Low Sulfur Index** (as provided by the Washington Department of General Administration – Purchasing and Contract Administration. Staff will make the index available to the industry via e-mail or postings to the commission’s web page.
- 11) Approved tariffs reflecting the elimination of fuel from the revenue requirement and adding a fuel component supplement become effective on the effective date approved by the commission.
- 12) Companies have the option to show the new fuel component charge as a separate line item for each separate type of service or combining the base and fuel components of each type of service into a single amount. For example:

<u>Service</u>	<u>Residential 64 gal. tote + Recy + Yard Waste</u>	<u>Commercial 1 Yard Container</u>	<u>Drop Box 20 Yd w/o P. Thru.</u>
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Combined

Garbage	\$20.88		
Recycle	\$6.81		
Yard Waste	\$9.35		
Total	<u>\$37.04</u>	<u>\$63.99</u>	<u>\$162.11</u>

Separate Line Item

Garbage	\$19.76	\$63.20	\$149.46
Fuel Component	\$1.12	\$0.84	\$13.31
Sub Total	<u>\$20.88</u>	<u>\$64.04</u>	<u>\$162.77</u>

Recycle	\$6.44
Fuel Component	\$0.37
Sub Total	<u>\$6.81</u>

Yard Waste	\$8.84
Fuel Component	\$0.51
Sub Total	<u>\$9.35</u>

Total Due	<u>\$37.04</u>
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13) The accounting entries tracking the above transactions should include the following account titles and numbers:

Account Title	Account Title
Fuel Component Receivable	128904
Fuel Component Payable	239904
Fuel Component Revenue	409000

14) Carriers must keep and maintain all relevant records and documents pertaining to fuel expenses and amounts owed to/from customers in a manner readily verifiable by staff.

Example 1 shows how to initially reduce fuel related costs from present, permanent rates.

	<u>Action / Category</u>	<u>Resid'l</u> <u>Garbage</u>	<u>Recycle</u> (excl. Commod ities)	<u>Yard</u> <u>Waste</u>	<u>Total</u> <u>Residentia</u> <u>I</u>
L 1	Total Pro Forma Fuel Cost Embedded in Rate Case	\$47,000	\$23,500	\$8,000	\$78,500
L 2	Pro Forma Present Revenue w/ Rates in Recent Rate Case	\$1,250,000	\$584,793	\$266,565	\$2,101,358
L 3	Fuel as a Percent of Revenue	3.76%	4.02%	3.00%	3.74%
L 4	New Revenue Requirement Excluding Fuel – per Revised Lurito/Gallagher Curve	\$1,207,143	\$559,167	\$257,883	\$2,024,192
L 5	Percentage Reduction in Present Rates to Remove Fuel Costs	-3.43%	-4.38%	-3.26%	-3.67%

Decrease residential related rates by 3.67 percent. Make similar calculations for commercial and drop box service. The drop box reduction applies to drop box revenue excluding Item 230 pass through fees.

$$L 3 = L 1 / L 2$$

$$L 5 = L 1 / L 4$$

Example 2 shows how to calculate the initial Fuel Component Supplement percentage amounts.

<u>Action / Category</u>	Residential			Total
	<u>Garbage</u>	<u>Recycle</u>	<u>Yard Waste</u>	<u>Residential</u>
Embedded Fuel in Rates from last Rate Case	\$47,000	\$23,500	\$8,000	\$78,500
New Revenues				
Excluding Fuel	\$1,207,143	\$559,167	\$257,883	\$2,024,193
YR OPIS Index PF Yr				
Ending March-06	\$2.5205	\$2.5205	\$2.5205	\$ 2.5205
Most Recent 2 month OPIS Index for Jul/Aug 06				
	\$3.1294	\$3.1294	\$3.1294	\$3.1294
Ratio 2 mo OPIS / Yr OPIS				
	1.2416	1.2416	1.2416	1.2416
Current Fuel Expense 9/06 - 8/07	\$58,354	\$29,177	\$9,933	\$97,464
Ratio x Embedded Fuel				
B&O Tax	1.50%			
Estimated UTC Fees	0.19%			
Estimated Bad Debts	0.80%			
Total Revenue Taxes	2.49%	1,453	727	247
Total Increased Fuel & Taxes Current Fuel + Taxes	<u>59,808</u>	<u>29,904</u>	<u>10,180</u>	<u>99,891</u>
Percent Expected Fuel & Taxes Over Permanent Present Rates Without Fuel				
Total Fuel & Taxes / New Revenues	4.95%	5.35%	3.95%	4.93%

Increase residential related rates by 4.93 percent. Make similar calculations for commercial and drop box service. The drop box increase applies to drop box revenue excluding Item 230 pass through fees.

Example 3 shows how to calculate the Fuel Component Supplement 1 year later.

	Residential			Total	
	<u>Garbage</u>		<u>Recycle</u>	<u>Yard Waste</u>	<u>Residential</u>
New Revenue Excluding Fuel	\$1,207,143		\$559,167	\$257,883	\$2,024,192
Year 1 Actual Fuel Costs Incurred Sep 06 to Aug 07	\$50,000	est.	\$24,000	\$8,300	\$82,300
Yr OPIS Sept 06 to Aug 07 12 mo. Avg. Index	\$2.8100	est.	\$2.8100	\$2.8100	\$2.8100
OPIS Avg. 2 mo. Index Jul & Aug 07	\$3.0100	est.	\$3.0100	\$3.0100	\$3.0100
Ratio Current 2 Mo OPIS / Yr OPIS	1.0712		1.0712	1.0712	1.0712
Anticipated Fuel Costs Incurred Sep 07 - Aug 08 Actual Fuel x Ratio	\$53,559		\$25,708	\$8,891	\$88,158
Actual Amounts Collected From Customers Yr 1 Sept 06 to Aug 07	\$58,000	est.	\$29,000	\$10,000	\$97,000
Amount Over Collected Fm Customers Actual Fuel Exp. Less Customer Collections	\$(8,000)		\$(5,000)	\$(1,700)	\$(14,700)
Net Adj. Amount to be Collected Fm Customers Sept 07 – Aug 08					
Anticipated Fuel less \$8,000	\$45,559		\$20,708	\$7,191	\$73,458
B&O Tax	1.50%				
UTC Fees	0.19%				
Bad Debts	0.80%				
Total Revenue Taxes	2.49%		\$1,134	\$516	\$1,829
Combined Total Adjustment Incl. Taxes	\$46,693		\$	21,224	\$75,287
True-Up Subsequent Year Percent Expected Fuel & Taxes Over New Revenue w/o Fuel	3.87%		3.80%	2.86%	3.72%
Total Adjustment / New Revenue					

