

Agenda Date: November 24, 2010

Item Numbers: B2, B3 and B4

**Dockets: TG-101220, TG-101221 and TG-101222**

Company Name: Waste Management of Washington, Inc. d/b/a's Waste Management – Northwest, Waste Management – Sno-King, Waste Management – South Sound and Waste Management of Seattle G-237

Staff: David Gomez, Deputy Assistant Director – Water and Transportation

### **Recommendation**

Staff recommends that the commission:

1. Set Waste Management of Washington, Inc.'s Petition to Allow Revenue Sharing, Lift Interim Status and Approve Revised Commodity Credits, filed on November 1, 2010, for hearing.
2. Issue an order in each of Dockets TG-101220, TG-101221 and TG-101222 to extend the authorization for Waste Management of Washington, Inc., to retain fifty percent of the revenue it receives from the sale of recyclable materials collected in its single family and multi-family residential recycling programs on an interim basis, subject to refund.
3. Issue a Complaint and Order in each of Dockets TG-101220, TG-101221 and TG-101222, suspending the tariff revisions filed by Waste Management, Inc. on November 1, 2010.

### **Background**

On August 31, 2010, the Utilities and Transportation Commission (commission) issued orders in these dockets filed by Waste Management of Washington, Inc. (WMW or company) that:

- Allow WMW to retain fifty percent of the revenue received from the sale of recyclable materials collected in its single family and multi-family residential recycling programs on an interim basis, from September 1, 2010, through December 1, 2010, subject to refund.
- Require WMW to work with King and Snohomish Counties to devise budgets and subsequently petition the commission in sixty-days (no later than November 1, 2010) to allow the revenue sharing through August 31, 2011, and lift the interim status of the revenue sharing by December 1, 2010.
- Require WMW include in its petitions, recycling plans and detailed budgets consistent with King and Snohomish Counties' Comprehensive Solid Waste Management Plans that show details on the amount of revenue it expects to retain, the amount of money it plans to spend on the activities identified in each recycling plan together with the anticipated effect the activities will have on increasing recycling.

- State the commission intends to issue orders by December 1, 2010, either lifting the interim status of the revenue sharing or set some other amount percentage for revenue sharing. The commission may also revisit the commodity credit amounts that have been allowed to go into effect by operation of law in these dockets.
- Require WMW to carry over into the next year retained revenues not spent during the previous plan period, and carry over into the following year's plan unspent revenues from this plan period, unless some other treatment is ordered by the commission.

On November 1, 2010, WMW filed with the commission:

- Petition in Dockets TG-101220, TG-101221 and TG-101222 to:
  - Lift the interim status of the revenue sharing thereby allowing WMW to retain fifty-percent of the revenue projected in and expended according to the budgets presented in the King and Snohomish County Revenue Sharing Agreements (RSA). The budgets include eight percent of the retained revenue as profit for WMW.
  - Approve the revised recycling commodity credits as calculated in WMW's Revenue Sharing Report – (2009 - 2010). The adjustments are based on WMW keeping eight percent of the 2009 - 2010 retained revenue as profit and refunding the balance of unspent retained revenue to customers.
- WMW's Revenue Sharing Report – (2009 - 2010);
- WMW's RSA with King County for the 2010-2011 plan period and a detailed budget showing how retained revenues will be used to increase recycling;
- A letter from Kevin Kiernan, Division Director, King County Solid Waste Division certifying the recycling plans for King County are consistent with the local government solid waste plan;
- WMW's RSA with Snohomish County for the 2010-2011 plan period and detailed budget showing how retained revenues will be used to increase recycling.
- A letter from Matt Zybas, Director Snohomish County Solid Waste Division certifying the recycling plan for Snohomish County is consistent with the local government solid waste plan; and
- Revised tariff pages for each of the three operating units that increase the monthly single-family recyclable commodity revenue credits and make no change to the multi-family credits that the company proposes to become effective December 1, 2010 (see Table 1 below).

<b>Company</b>	<b>Single Family Recyclable Commodity Revenue Adjustment in Effect</b>	<b>Single Family Recyclable Commodity Revenue Adjustment; Company Revised</b>	<b>Multi Family Recyclable Commodity Revenue Adjustment in Effect</b>	<b>Multi Family Recyclable Commodity Revenue Adjustment; Company Revised</b>
Waste Management – Northwest (TG-101220)	\$1.05	\$1.14	\$0.41	\$0.41
Waste Management – Sno-King (TG-10121)	\$1.31	\$1.48	\$0.21	\$0.21
Waste Management – South Sound and Waste Management of Seattle (TG-101222)	\$1.12	\$1.29	\$0.21	\$0.21

**Table 1; Monthly Recyclable Commodity Revenue Adjustments (Company Revised)**

WMW’s Revenue Sharing Report – (2009 - 2010) sets forth the calculations of the proposed revised recyclable commodity revenue adjustments. Through the revenue sharing plan, WMW received \$3,720,339 from the sale of recyclable commodities during the 2009 – 2010 plan period and retained \$1,102,029 (29.6 percent). WMW did not spend \$212,168 of the retained revenue. WMW proposes to keep \$88,162, eight percent of the total retained revenue, as profit and refund the \$124,006 balance to customers through the recyclable commodity credits in the 2010 – 2011 plan period.

WMW filed detailed budgets for the 2010-2011 plan periods for both Snohomish and King Counties. They included \$1,832,600 in expenditures for:

- Allocated labor - \$314,200 (17 percent)
- Printed Materials - \$363,800 (20 percent)
- Winter Weekly Yardwaste Collection Pilot - \$73,800 (4 percent)
- Professional and Marketing Fees - \$451,200 (25 percent)
- Capital Improvements to WMW’s Cascade Recycling Center - \$483,000 (26 percent)
- Profit/Return for WMW - \$146,600 (8 percent)

WMW and King County's RSA for the 2010-2011 plan period calls for WMW to retain fifty percent of the recyclable commodity revenue based on completing the following tasks:

1. Data reporting – monthly recycling and data reports to include monthly audit reports on the recycling activities at WMW’s Cascade Recycling Center;
2. Quarterly updates and coordination meetings – Quarterly meetings with county staff to report on implementation steps, lessons learned and next steps to ensure successful

- completion of the plan;
3. Increased proportion of households subscribing to curbside collection services – Targeting of non-subscribing households through a direct mail campaign.
  4. Decreased residuals and contaminants – Public education and increased investment in equipment and processing technologies to improve the quality of recyclables;
  5. Harmonization with other area curbside recycling programs;
  6. Targeted commodities – Includes winter weekly yardwaste collection pilot;
  7. E-Waste, problematic and household hazardous waste – Development of strategies to divert these waste from landfills;
  8. Ongoing promotion of food waste programs to yardwaste customers;
  9. Multi-family recycling education program;
  10. Commercial recycling – Hiring of a commercial recycling outreach/sales coordinator to increase the amount of commercial recyclables diverted from the waste stream;
  11. Promotion of recycling programs;
  12. Recycling audits – Quarterly audits of one route truck from residential, commercial and multi-family customers; and
  13. Focus groups – Waste Management will hire a third party to evaluate and improve customer messaging.

Furthermore, the plan states that King County will condition its recommendation to the commission that the company be allowed to retain the full fifty percent at the end of the 2010-2011 plan period based on WMW achieving all program components specified in the plan and making satisfactory progress toward achieving numerical goals. King County states that failure by the company to meet the data reporting requirements of the plan will result in a reduction of the amount WMW is allowed to retain for the 2010-2011 period to 25 percent.

Kevin Kiernan, Division Director, King County Solid Waste Division signed the letter and the plan certifying that the plan is consistent with the local government solid waste plan.

WMW and Snohomish County's RSA for the 2010-2011 plan period calls WMW to retain fifty percent of the recyclable commodity revenue based on completing the following tasks:

1. Data reporting – monthly recycling and data reports to include monthly audit reports on the recycling activities at WMW's Cascade Recycling Center;
2. Notification of rate changes – Providing materials and notice to the county to allow analysis by the county and interaction with the commission and stakeholder regarding any proposed rate actions;
3. Quarterly updates and coordination meetings – Quarterly meetings with county staff to report on implementation steps, lessons learned and next steps to ensure successful completion of the plan;
4. Increased proportion of households subscribing to curbside collection services – Targeting of non-subscribing households through a direct mail campaign.

5. Decrease residuals and contaminants – Public education and increased investment in equipment and processing technologies to improve the quality of recyclables;
6. Harmonization with other area curbside recycling programs;
7. Targeted commodities – Includes winter weekly yardwaste collection pilot;
8. E-Waste, problematic and household hazardous waste – Development of strategies to divert these waste from landfills;
9. Ongoing promotion of food waste programs to yardwaste customers;
10. Multi-family recycling education program;
11. Recycling outreach;
12. Promotion of recycling programs;
13. Recycling audits – Quarterly audits of one route truck from residential, commercial and multi-family customers; and
14. Focus groups – WMW will hire a third party to evaluate and improve customer messaging.

Furthermore, the plan states that Snohomish County will condition its recommendation to the commission that the company be allowed to retain the full fifty percent at the end of the 2010-2011 plan period based on WMW achieving all program components specified in the plan and making satisfactory progress toward achieving numerical goals. Snohomish County states that failure by the company to meet the data reporting requirements of the plan will result in a reduction of the amount WMW is allowed to retain for the 2010-2011 period to 15 percent.

Matt Zybas, Director Snohomish County Solid Waste Division signed the letter and the plan certifying that the plan is consistent with the local government solid waste plan.

### **Discussion**

RCW 81.77.185 states that the commission shall allow a solid waste collection company collecting recyclable materials from single-family customers to retain “up to fifty percent of the revenue paid” to the company for the material if the company submits a plan to the commission that is certified by the appropriate local government authority as being consistent with the local government solid waste plan and that demonstrates how the revenues will be used to increase recycling. The remaining revenue must be passed through to single-family customers.

These are the first revenue sharing plans that specifically include a profit for the company. The company's proposed eight percent profit is based on the premise that the company is entitled to an "incentive" because the expenses reflected in the recycling plan are not included in the operating costs used to set recycling rates charged to customers and, therefore, the company does not earn a return on those expenses from its regulated collection services. That is, the company does not earn a return on the retained revenues. The company selected a return of eight percent because it believes that it represents the range of earnings generally approved by the commission in previous rate cases.<sup>1</sup>

---

<sup>1</sup> Staff reviewed recent general rate case data and found that operating ratios for the company's recycling operations

WMW's proposed eight percent profit factor affects the percent of revenue that the commission may allow the company to retain for the 2010 - 2011 plan period, as well as what the commission may determine should happen with the unspent 2009 - 2010 retained revenue. A decision in these dockets regarding company profits would affect all other companies participating in revenue sharing plans. Staff believes that the open meeting is not the appropriate forum to decide this industry-wide issue and recommends that the commission set WMW's petition for hearing, extend the authorized fifty percent revenue sharing on an interim basis, subject to refund, and issue a complaint and order suspending the company's proposed recycling commodity adjustments filed on November 1, 2010.

### **Conclusion**

Staff recommends that the commission:

1. Set Waste Management of Washington, Inc.'s Petition to Allow Revenue Sharing, Lift Interim Status and Approve Revised Commodity Credits, filed on November 1, 2010, for hearing.
2. Issue an order in each of Dockets TG-101220, TG-101221 and TG-101222 to extend the authorization for Waste Management of Washington, Inc., to retain fifty percent of the revenue it receives from the sale of recyclable materials collected in its single family and multi-family residential recycling programs on an interim basis, subject to refund.
3. Issue a Complaint and Order in each of Dockets TG-101220, TG-101221 and TG-101222, suspending the tariff revisions filed by Waste Management, Inc., on November 1, 2010.