

Agenda Date: March 14, 2024
Item Number: B1

Docket: TG-230969
Company: Stericycle of Washington, Inc. d/b/a Stericycle

Staff: Ben Sharbono, Regulatory Services
Kris Iris, Consumer Protection

Recommendation

Enter an Order allowing tariff revisions filed by Stericycle of Washington, Inc. d/b/a Stericycle on November 17, 2023, as revised on March 11, 2024, to become effective on March 15, 2024, subject to the following conditions:

- 1) To file a general rate case with an effective date no later than October 1, 2025, allowing the Company to collect updated information, and Staff to ensure the revenues, expenses, and allocations are fair, just, reasonable, and sufficient;
- 2) To include an income statement that clearly separates regulated and non-regulated revenues and expenses by direct cost tracking or appropriate, non-revenue-based allocation factors. WAC 480-07-520(4)(d) and (e);
- 3) To provide information about every transaction with an affiliated interest or subsidiary that directly or indirectly affects, modifies, or deviates from the proposed rates, including a full description of the relationship, the terms and amount of the transaction, the length of time the relationship has been ongoing, and an income statement and balance sheet for every affiliated entity. WAC 480-07-520(4)(j);
- 4) To provide a regulated income statement that clearly separates regulated costs of collection/transportation, processing/disposal, and ancillary charges by direct cost tracking or appropriate, non-revenue-based allocation factors;
- 5) To provide a list of regulated service rates and ancillary service rates, and the number of times each rate was charged so that when multiplied the regulated revenues for each service is calculated. WAC 480-07-520(4)(b) and (f);
- 6) To provide a general ledger with clearly identified transactions, aligned with the Uniform System of Accounts for Class A and B Solid Waste Collection Companies. WAC 480-07-520(4)(c).

Background

On November 17, 2023, Stericycle of Washington, Inc. d/b/a Stericycle (Stericycle or Company) filed with the Washington Utilities and Transportation Commission (Commission) tariff revisions that would generate approximately \$2.9 million (25 percent) additional annual revenue.

Stericycle provides regulated medical waste collection service to approximately 15,000 commercial customers in Washington State. This is the Company's first general rate increase since its initial tariff took effect December 1, 2001.

Stericycle filed the request due to rising operational costs, including labor, materials, equipment, transportation, and disposal expenses. The Company is also seeking to streamline its service offerings to three container sizes.

Discussion

Commission staff (Staff) has completed its review of Stericycle's books and supporting documents. Staff removed unallowable expenses, made adjustments to depreciation, adjusted investment to end of period as required by rule. Staff updated fuel expenses, and removed out-of-state revenues and expenses that were included in Stericycle's Washington operations.

In reviewing the Company's documents, Staff noted Stericycle used revenue to allocate its expenses between regulated and non-regulated operations. Through discussions with the Company, Staff learned Stericycle's accounting system does not have regulated and non-regulated operations separated, making it difficult to identify directly attributable expenses. Staff discussed with the Company other possible allocation methods using activities such as driver hours and regulated vs non-regulated driver time spent or vehicles miles, in addition to clearly tracking regulated vs. non-regulated activities. Stericycle has not tracked activity information that would allow more accurate allocation of expenses.

Staff is concerned that by using revenue as an allocation methodology, it can result in subsidization of regulated or non-regulated operations through misalignment of expenses. Using revenue as an allocator relies on a Company's operations having similar expenses to generate similar revenues. Businesses service offerings, such as Stericycle offering regulated medical waste collection, non-regulated medical waste disposal, and compliance services, will generally have different expense to revenue ratios. Those services that generate greater revenues are then allocated more expenses, applying more expenses to the service even though the actual cost of providing the services remains the same.

Furthermore, revenue allocation also has a cyclic component for companies setting rates using an operating ratio, such as the transportation companies regulated by the Commission. Using the operating ratio, a company's revenue is based on the operating expenses of the company. However, when using revenue allocation, as revenues increase, the allocation of expenses further increases, resulting in more revenue being allocated to the operation, causing a repeating cycle.

Because Stericycle has not filed a general rate increase in over 20 years of operation and it does not have information that would better allocate expenses, Staff believes that allowing a one-time use of revenue allocation will allow the Company to establish reasonably accurate rates. Customers are further protected from Stericycle requesting unreasonable, unjust, and unfair rates due to competition. Stericycle is one of the two state-wide certificated medical waste companies

providing services across Washington State, in addition to regulated local medical waste companies in some certificated areas.

The Company is also reducing the sizes of containers offered from 10 to 3. Over the last two decades, the Company added several container sizes to its tariff. Stericycle purchases containers in bulk, which are dispersed to customers. By reducing the selection of sizes, the Company aims to reduce costs while maintaining similar service levels.

Current Offerings:	Replaced By:
10 gallons	
15 gallons	
17 gallons	17 gallons
20 gallons	
21 gallons	
28 gallons	
31 gallons	31 gallons
33 gallons	
40 gallons	
43 gallons	43 gallons
48 gallons	

The Company stated during conversations they are working with current customers to move toward the revised sizes. The Company will stop delivering and collecting containers from customers that are not the specified sizes after one year.

Rate Comparison

The table below shows the current and updated rates for the first container picked up of each container size. Other rates are included in the Company's tariff.

Container Sizes	17 gallons	31 gallons	43 gallons
Current Rate*	\$24.65 to \$7.14	\$50.22 to \$7.75	\$67.94 to \$10.75
New Rate Container 1-18	\$17.75	\$24.95	\$25.58
New Rate Container 19-39	\$9.60	\$11.85	\$14.10
New Rate Container 40+	\$7.55	\$9.10	\$11.30

* Under the Company's current rate design, the rate is reduced for additional containers, with rates continuing to decline until the 60th or 75th container depending on size. As an example, the first 17-gallon container is priced at \$24.65, and the 60th 17-gallon container priced at \$7.14.

After further review, to settle the case, the Company revised the "No waste" and "Minimum stop fee" from \$79.99 to \$63.47.

Customer Comments

On November 20, 2023, the Company notified its customers by U.S. mail of the proposed rate increase. Staff received five consumer comments, all opposing the proposed increase. Customers expressed concern with the \$79.99 increase, indicating the increase would negatively impact small businesses; especially when the quantity of the waste being removed is small. Customers also questioned the proposed \$10.36 “on call” fee when businesses would already be paying the \$79.99.

Customers also commented on poor customer service, missed pick-ups and difficulty communicating with the Company. Staff referred commenters to the Consumer Protection Complaint Team to receive assistance with their concerns.

Conclusion

Staff has completed its review of the Company’s financial documents and found the Company’s initial request is justified. Staff’s review shows that the revised tariff pages filed are reasonable and required as part of the Company’s operations.

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