**Docket TG-140560**

**Witness: Melissa Cheesman**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**  **Complainant,**  **v.**  **WASTE CONTROL, INC. (G-101),**  **Respondent.** | **DOCKET TG-140560** |

**TESTIMONY OF**

**Melissa Cheesman**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

**IN SUPPORT OF PROPOSED**

**PARTIAL SETTLEMENT AGREEMENT**

**October 13, 2014**

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**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Melissa Cheesman. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504.

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

A. I am employed by the Washington Utilities and Transportation Commission as a Regulatory Analyst.

**Q. How long have you been employed by the Commission?**

A. I have been employed by the Commission since June 2012.

**Q. Would you please state your educational and professional background?**

A. I graduated magna cum laude from Seattle University, Albers School of Business and Economics, with a Bachelor of Arts in Business Administration with a focus in accounting in 2010. In 2012, I earned a Masters of Professional Accounting (MPAC) degree from Seattle University, Albers School of Business and Economics.

I attended the Western NARUC Utility Rate School (2013) and the National Association of Water Companies 2013, Staff Water Policy Forum. I have audited the following solid waste general rate case dockets (from most current to oldest): TG-140560, TG-131794, TG-131121, TG-130502, TG-130501, TG-121791, TG-121510, and TG-121044. I also previously provided written testimony before the Commission in support of a settlement agreement for dockets TG-130501 and TG-130502.

**II. PURPOSE AND SCOPE OF SUPPLEMENTAL TESTIMONY**

**Q. Please explain the purpose of your testimony.**

A. The purpose of my testimony is to provide written narrative in support of the partial settlement agreement proposed by Waste Control, Inc. (WCI or the Company), and the Utilities and Transportation Commission Staff (Staff) in Docket TG-140560. The Parties propose a partial settlement that includes the resolution of the adjustments enumerated within Staff’s narrative below.

**Q. Please provide a brief outline of your testimony.**

I have included a discussion of the settled adjustments and additional information provided by WCI in Section V and in the attached exhibits. I describe the rate design aspects of the settlement in Section VII.

**Q. Please summarize the Settlement Agreement.**

A. Staff and the Company have agreed to a partial settlement of: (1) not separating non-regulated and regulated operations; and (2) account balances of specific contested expenses. On July 18, 2014, Staff’s recommended additional annual revenue was approximately $132,000 (or 3.5 percent). The partial settlement agreement would increase Staff’s recommended additional annual revenue by approximately $164,000 (or 124 percent). This represents a reduction of approximately $247,000 from the Company’s original request which was for an increase of $543,000 or 14.5 percent. The Partial Settlement Agreement provides for an effective date on the first day of the month after the Commission’s final order in this docket.

1. **SCOPE OF UNDERLYING DISPUTES IN DOCKET TG-140560**

**Q. Please summarize WCI’s general rate filing under Docket TG-140560.**

A. On April, 3, 2014, WCI filed with the Commission a general rate increase and new Tariff No. 16 that would generate approximately $543,000 (or 14.5 percent) additional annual revenue for the collection of residential and commercial garbage and drop box services. The Company requested immediate suspension and the Commission granted the Company’s request by suspending the filing and initiating a formal adjudicative proceeding. Procedural events included a technical conference, discovery disputes, a motion to compel, and a mandatory discovery conference. Staff filed testimony on July 18, 2014, contesting several of WCI’s rate making adjustments. Staff’s testimony recommended approximately $132,000 (or 3.5 percent) in additional annual revenue. The Company filed rebuttal testimony on August 20, 2014, in which WCI reduced its proposed revenue requirement to approximately $497,000 (or 12.5 percent).

**Q. Please summarize the substantive disputes between Staff and the Company in Docket TG-140560.**

A. In its testimony on July 18, 2014, Staff disputed several of the Company’s proposed restating and pro forma adjustments, as summarized in the following “Table 1 – Restating Adjustments” and “Table 2 – Pro forma Adjustments.”[[1]](#footnote-2) Column one shows the name of the adjustment, and the second and third columns include the numbering system used by Staff and WCI to identify the various adjustments, respectively. Columns four and five show whether the adjustment is “contested” or “uncontested.” As noted above, Staff’s testimony disputed all “contested” adjustments.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Table 1**  **Restating Adjustments** | | | | | |
| Description | | *Reference No.* | | Contested | Uncontested |
| Staff | WCI |
| 1 | Depreciation Re-classification | R-1 | R-1 |  | Yes |
| 2 | Asset Useful Lives to Reflect Uniform System of Accounts | R-1A | None | Yes |  |
| 3 | Reduction in Depreciable Asset Cost | R-1B | No # |  | Yes |
| 4 | Customer Refunds Re-classification | R-2 | R-2 |  | Yes |
| 5 | Fringe Benefit Re-classification | R-3 | R-3 |  | Yes |
| 6 | Remove Interest Expense | R-4 | R-4 |  | Yes |
| 7 | Tax Expense Re-classification | R-5 | R-5 |  | Yes |
| 8 | Remove Political, Lobbying, Franchise, Health Club, and Condo Rent Expenses | R-6 | R-6 |  | Yes |
| 9 | Office Supply | R-6A | R-6A |  | Yes |
| 10 | Actual Bad Debt | R-6B | R-6B |  | Yes |
| 11 | Other Expenses | R-6C | R-6C |  | Yes |
| 12 | Utilities | R-6D | R-6D | Yes |  |
| 13 | Land Rents | R-6E | R-6E | Yes |  |
| 14 | Tires | R-6F | R-6F |  | Yes |
| 15 | Property Tax | R-6G | R-6G | Yes |  |
| 16 | Spare Truck Rents | R-6H | None | Yes |  |
| 17 | Remove Fuel Surcharge | R-7 | R-7 |  | Yes |
| 18 | Capital Structure | R-8 | No # | Yes |  |
| 19 | Lurito-Gallagher Inputs | R-9 | No # | Yes |  |
| 20 | Allocation of Average Investment to Non-regulated Operations | R-10 | None | Yes |  |
| 21 | Remove Non-Regulated City of Kalama Operations | RC-1 | RC-1 | Yes |  |
| 22 | Remove Non-Regulated Contract Hauling Operations | RC-1 | RC-1 |  | Yes |
| 23 | Remove City of Kalama Disposal Fees | RC-1A | RC-1A | Yes |  |
| 24 | Regulated Allocation of Office Supply Expense | RC-1B | RC-1B |  | Yes |
| 25 | Payroll Expense Re-classification | RC-2 | RC-2 |  | Yes |
| 26 | Disposal Expense Re-classification | RC-3 | RC-3 |  | Yes |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Table 2**  **Pro Forma Adjustments** | | | | | |
| Description | | *Reference No.* | | Contested | Uncontested |
| Staff | WCI |
| 1 | Payroll Increase | P-1A | P-1 | Yes |  |
| 2 | Management Fee Increase | P-1B | P-1 |  | Yes |
| 3 | Rate Case Expense | P-2 | P-2 | Yes |  |
| 4 | Amortized Rate Case Expense | P-3 | P-3 | Yes |  |
| 5 | Fuel | P-4 | P-4 | Yes |  |
| 6 | Disposal Increase – Residential and Commercial | P-5A | P-5A | Yes |  |
| 7 | Disposal Increase – Drop Box | P-5B | P-5A |  | Yes |

1. **SCOPE OF SETTLEMENT**

**Q. Please summarize the scope of the proposed Partial Settlement Agreement in Docket TG-140560.**

A. Staff and the Company propose to settle 11 of the previously-disputed adjustments. In the following, four contested adjustments (RC-1, RC-1A, R-10, and P-5A) relate specifically to non-regulated Kalama operations and are grouped together in Staff’s narrative. The payroll increase adjustment (P-1A) is split into two narratives: (1) P-1, the new labor increase to include information provided by WCI in Jackie Davis’ rebuttal testimony, filed on August 20, 2014; and (2) P-1A, Fringe Benefit Expense.

**Q. Please provide an overview of each of the settled adjustments addressed in this case and incorporated in the Settlement Agreement.**

A. The Parties propose to resolve the following adjustments:

* **Removal of the City of Kalama, Adjustments RC-1, RC-1A, R-10, and P-5A** – The Parties agree to a final residential and commercial Disposal Fee Expense of $757,552, a final Average Net Investment of $1,548,613 for use in the Lurito-Gallagher calculation, and to commingle regulated and non-regulated operations. The Parties will directly assign a portion of the calculated final revenue requirement to non-regulated Kalama operations.
* **Asset Useful Lives to Reflect USOA/Depreciation Expense, Adjustment R-1A** – The Parties agree to a final Depreciation Expense amount of $209,766.
* **Property Tax Expense, Adjustment R-6G** – The Parties agree to a final Property Tax Expense of $9,007.
* **Spare Truck Rents Expense, Adjustment R-6H** – The Parties agree to a final Spare Truck Rents Expense of $36,000.
* **Capital Structure in Lurito-Gallagher, Adjustment R-8** – The Parties agree to a final Capital Structure for use in the Lurito-Gallagher of 40 percent debt and 60 percent equity.
* **Cost of Debt in Lurito-Gallagher, Adjustment R-9** – The Parties agree to a final Cost of Debt of 3.66 percent for use in the Lurito-Gallagher.
* **Labor Expense, Adjustment P-1** – The Parties agree to a final Labor Expense of $860,325.
* **Fringe Benefit Expense, Adjustment P-1A** – The Parties agree to a final Fringe Benefit Expense of $277,528.
* **Fuel Expense, Adjustment P-4** – The Parties agree to a final Fuel Expense of $291,472.

**Q. Please list remaining disputes not included in the Parties proposed partial settlement agreement.**

A. The Parties continue to disagree on the following contested adjustments and ask that the Commission allow continued litigation on these matters:

* + - Shared Utilities Expense, Adjustment R-6D
    - Affiliate Land Rents, Adjustment R-6E
    - Rate Case Costs, Adjustments P-2 and P-3
    - Assessment of Investigation Fees

**Q. Please provide a brief description of each adjustment or line item and the Parties related accounting and policy positions.**

A. I have included a table as Attachment 9 to my testimony for anoverview of the Company’s and Staff’s positions based on previously filed testimony of contested issues. The first column lists the contested account or Lurito-Gallagher input (i.e. capital structure, cost of debt, average net investment). Columns two through four provide the Company’s and Staff’s positions. The fifth column (which is split into five sub-columns), includes the dates and brief descriptions of the new data provided by the Company on and after filing its testimonies on August 20, 2014. Finally, the sixth column includes the agreed values of expense balances and Lurito-Gallagher inputs.

1. **STAFF’S VIEWS OF ISSUES PROPOSED FOR SETTLEMENT**

**Q. Please briefly describe Staff’s view of the Parties’ proposed partial settlement agreement.**

A. Staff’s goal is to recommend rates that are fair, just, reasonable, and sufficient. For nearly all previously-contested adjustments now included in the Parties proposal for partial settlement, the Company provided new information or supporting data and documentation in its August 20, 2014, rebuttal testimony and subsequent follow-up. Prior to providing rebuttal testimony and documentation, the Company simply had not demonstrated or provided sufficient information to support its proposed adjustments. Based on the information provided by the Company, on and after August 20, 2014, Staff supports settlement of the issues outlined and described below.

1. Remove Non-Regulated City of Kalama Operations, Adjustments RC-1, RC-1A, R-10, and P-5A

**Q. Please explain the Parties’ proposed settlement as it relates to Adjustments RC-1, RC-1A, R-10 and P-5A, Removal of the City of Kalama non-regulated operations.**

**A.** The Parties agree to a final residential and commercial Disposal Fee Expense of $757,552 and a final Average Net Investment of $1,548,613 for use in the Lurito-Gallagher calculation. The Parties agree to:

1. Not separate revenue, expenses or average net investment into regulated and non-regulated operations;
2. Include in rate design a component for non-regulated revenues; and
3. Include two average investment corrections in the Company’s depreciation schedule for shared service truck numbers 1 and 55.

**Q. Please briefly summarize WCI’s original position and subsequent position, prior to August 20, 2014, as related to Adjustment RC-1, RC-1A, R-10 and P-5A.**

A. In its Exhibit JD-11, Excel workbook and four subsequent workbook versions, the Company proposed separating non-regulated Kalama and regulated operations. The Company allocated expenses using its proposed allocation factors Customer Counts, Pick-ups, and Route Hours. The Route Hours allocation factor was based on the Company’s proposed route study.

WCI’s results of operations included restating and pro forma adjustments to remove a portion of disposal fees allocated to non-regulated operations. WCI did not propose an adjustment to allocate a portion of average net investment to non-regulated operations. WCI’s average net investment calculation included hardcoded allocation factors for WCI’s portion of average net investment for shared service truck numbers 1, 8, and 55. The portion allocated to WCI was 30 percent, 82 percent, and 30 percent, respectively. In response to Staff’s Formal Data Request 11, the Company did not provide calculations to support its hardcodes but confirmed that the Company believes the 30 percent, 82 percent, and 30 percent are appropriate.

In the first four versions of Exhibit JD-11, the Company allocated $145,805 of expenses to non-regulated operations. In the fifth version of Exhibit JD-11, the Company allocated $160,257 of expenses to non-regulated operations. The increase in allocated expenses is due to WCI adjusting its allocation factor data previously provided to Staff on April 3, 2014. WCI increased the non-regulated pick-up allocation factor by adding estimated non-regulated commercial pick-ups. WCI increased the non-regulated customer count allocation factor by decreasing residential non-regulated Kalama customers, and corrected its customer count percentage calculations to include all non-regulated customers.

In all five versions of Exhibit JD-11, the Company directly assigned $222,136 in revenue to non-regulated Kalama operations.

**Q. Please summarize Staff’s original position on Adjustment RC-1, RC-1A, R-10 and P-5A and provided in testimony on July 18, 2014.**

A. Staff recommended the Commission allocate a greater portion of general expenses and disposal fees, and allocate a portion of average net investment to non-regulated Kalama operations. Because the Company’s route study did not include all services provided to the City of Kalama and did not reconcile to WCI’s customer count, Staff relied on customer counts and billed service information provided by the City of Kalama to recalculate the allocation factors for customer counts and pick-ups. Staff eliminated the unsupported route study, which removed route hours as an allocation factor. However, Staff’s allocation factors relied on the Company’s data for regulated operations. Staff recommended allocating $278,929 in expenses to non-regulated Kalama operations.

Staff proposed adjustments to the useful lives of garbage trucks.[[2]](#footnote-3) Staff used the results from WCI’s depreciation schedule to allocate a portion of average net investment to non-regulated Kalama operations. Staff recommended allocating $116,172 of average net investment to non-regulated Kalama operations.

**Q. Please summarize WCI’s most recent position on Adjustment RC-1, RC-1A, R-10 and P-5A.**

A. WCI’s most recent position, as reflected in Jackie Davis’ rebuttal testimony, filed on August 20, 2014, did not separate non-regulated Kalama and regulated operations because: (1) WCI’s non-regulated revenue represents less than 10 percent of total company revenues;[[3]](#footnote-4) (2) after the Company’s 2009 general rate case, prior unidentified UTC Staff advised the Company to file future general rate cases with no separation of non-regulated and regulated operations;[[4]](#footnote-5) and (3) sometime after the Company’s 2009 general rate case but before the test year, WCI stopped its careful monitoring of revenues earned and expense incurred by its non-regulated operations.[[5]](#footnote-6)

As reflected in Jackie Davis’ Exhibit JD-49, filed August 20, 2014, the Company made corrections to its depreciation schedule to include more average net investment related to the shared service truck numbers 1, 8, and 55. The corrections resulted in the Company including $1,550,313 for average net investment for total operations. Upon review of Exhibit JD-49, Staff discovered that the Company removed the average net investment allocation factors for service trucks #1, #8, and #55. On September 26, 2014, WCI stated in an email to Staff that the Company had reviewed and reconsidered its position. WCI states that since the asset values for shared service truck numbers 1 and 55 had already been adjusted to reflect WCI’s shared portion, it is appropriate to set the allocation factors for average net investment to 100 percent.

However, WCI agrees for the purposes of settlement that fully depreciated shared service truck number 8 should include the historical 82 percent allocation to average net investment. Shared service truck number 8’s average net investment equals $9,440 of salvage value. WCI’s portion of average net investment is $7,741 (or 82 percent) of salvage value.

**Q. Did the Company provide additional information for Adjustment RC-1, RC-1A, R-10 and P-5A after Staff filed its testimony?**

A. Yes. After Staff filed its testimony, the Company filed the following information:

1. On August 20, 2014, in Jackie Davis’ rebuttal testimony, the Company states that non-regulated Kalama and regulated operations should not be separated.
2. On August 20 ,2014, in Jackie Davis’ rebuttal testimony, the Company stated:
   1. prior UTC Staff (unidentified) advised the Company after its 2009 general rate case to not separate non-regulated and regulated operations, and
   2. the Company stated that it does not carefully monitor the revenues earned and expense incurred by its non-regulated operations.
3. On August 20, 2014, in Jackie Davis’ Exhibit JD-49, the Company included 100 percent allocation of average net investment to WCI operations for shared service truck numbers 1, 8, and 55.
4. On August 21, 2014, the Company provided a new one-week route study, for August 2, 2014 through August 8, 2014, which did not include a new customer count or reconcile to WCI’s proposed test year customer count filed on April 3, 2014. The new route study is more than a year outside the test year.
5. On September 26, 2014, the Company provided explanations for corrections to the average net investment calculation for shared service truck numbers 1 and 55.
6. On October 1, 2014, the Company stated that the shared service truck number 8 has historically included an 82 percent allocation to WCI operations.

**Q. Please explain how the Company’s additional information impacted Staff’s analysis and supports the proposed settlement.**

A. Staff’s original analysis included the customer information, filed on May 23, 2014, in Exhibit JD-11 to define regulated operations. In Jackie Davis’ rebuttal testimony, filed on August 20, 2014, WCI acknowledges problems with the Company’s route study and that WCI no longer tracks non-regulated operations. Staff has reconsidered the reliability of its own allocation factors because they are based, in part, on the Company’s direct and supplemental cases. Staff determined that its own allocators were unreliable because they rely on the inaccurate data included in the Company’s filing.

The Company’s new route study is also unreliable. WCI’s new one-week route study, for August 4 through August 8, 2014, appears to include both non-regulated and regulated garbage collection services. The new route study is more than a year outside the test year and is not necessarily representative of the test period activity or comparable to the test year customer count. The new route study does not include a corresponding customer count and the Company provides no reconciliation of the new route study to the test year customer count. Because the new route study does not include a corresponding customer count or reconcile to WCI’s test year customer count, Staff determined that the new route study is not sufficiently supported, and should not be used as an allocation factor.

Because Staff has no reliable or supported allocation factors and because non-regulated Kalama operations represent 5.5 percent of total Company revenues, Staff agrees with the Company’s position that non-regulated Kalama operations should not be separated from regulated operations unless the allocation factors are reliable and supported. In these specific circumstances, Staff believes that not separating regulated and non-regulated Kalama operations results in rates that are fair, just, reasonable, and sufficient.

Staff’s original analysis included the Company’s errors to shared service truck numbers 1 and 55. In Jackie Davis’ Exhibit JD-49, filed on August 20, 2014, the Company corrected its errors to WCI’s depreciation schedule for shared service truck numbers 1 and 55. WCI incorrectly changed shared service truck number 8 average net investment allocation from 82 percent to 100 percent.

After reviewing Exhibit JD-49, the Company’s explanations regarding shared service truck numbers 1 and 55, and the Company’s statement that the shared service truck number 8 has historically included an 82 percent allocation, Staff believes that including $1,548,613 average net investment to generate WCI’s revenue requirement results in rates that are fair, just, reasonable, and sufficient.

**Q. Do Staff and the Company propose to include non-regulated Kalama operations in rate design?**

A. Yes. Staff and the Company agree that non-regulated Kalama operations will be added as a component to rate design, and a portion of the final revenue requirement calculation will be directly assigned to non-regulated Kalama operations. This practice avoids double recovery of costs from both regulated and non-regulated ratepayers and ensures that a portion of the revenue requirement will be directly assigned to non-regulated Kalama operations.

1. Asset Useful Lives to Reflect USOA/Depreciation Expense, Adjustment R-1A

**Q. Please explain the Parties’ proposed settlement as it relates to Adjustment R-1A, Depreciation Expense.**

A. The Parties propose a final Depreciation Expense of $209,766. The Parties agree to:

1. Accept Staff’s proposed use of the Uniform System of Accounts (USOA) standards for depreciable lives and the corresponding adjustments to WCI’s depreciation expense and average net investment; and
2. Not separate Depreciation Expense into regulated and non-regulated operations.[[6]](#footnote-7)

**Q. Please briefly summarize WCI’s original position and subsequent position, prior to August 20, 2014, as related to Adjustment R-1A.**

A. In Exhibit JD-11 Excel workbook and four subsequent versions, the Company did not propose an adjustment to the useful lives of depreciable assets for Garbage Trucks, Service Cars, and Drop Box Trucks. The Company depreciates garbage collection trucks using 10-year useful lives for rate making purposes. The Company’s per book depreciation records show it depreciates garbage trucks using eight-year useful lives. WCI allocated Depreciation Expense between regulated and non-regulated operations.

In the first four versions of Exhibit JD-11, the Company allocated $175,780 Depreciation Expense to regulated operations. In the fifth version of Exhibit JD-11, the Company allocated $175,587 Depreciation Expense to regulated operations. The decrease in allocated Depreciation Expense is due to WCI increasing its allocation to non-regulated operations.

**Q. Please summarize Staff’s original position on Adjustment R-1A and provided in testimony on July 18, 2014.**

A. Staff proposed an adjustment that aligns the useful lives for assets purchased since WCI’s previous rate case to reflect USOA standards. Staff recommended the allocation of $193,472 Depreciation Expense to regulated operations.

**Q. Please summarize WCI’s most recent position on Adjustment R-1A.**

A. WCI’s most recent position, as reflected in Jackie Davis’ rebuttal testimony filed on August 20, 2014, agrees with Staff’s fair assessment of applying USOA standards to assets purchased since WCI’s previous rate case.[[7]](#footnote-8) The Company included $209,766 total Depreciation Expense.

**Q. Did the Company provide additional information for Adjustment R-1A after Staff filed its testimony?**

A. No.

**Q. Please explain why the Parties’ proposal to settle Adjustment R-1A is fair and reasonable.**

A. As noted above, the proposed adjustment reflects the standards outlined in the USOA. Depreciation schedules in accordance with the USOA reflect common industry and Commission standards. Therefore, the Parties’ proposal reflects a fair and reasonable treatment of assets consistent with regulatory and industry standards. Staff believes that $209,766 Depreciation Expense results in rates that are fair, just, reasonable, and sufficient.

1. Property Taxes Expense, Adjustment R-6G

**Q. Please explain the Parties proposed settlement as it relates to Adjustment R-6G, Property Taxes Expense.**

A. The Parties propose a final Property Tax Expense of $9,007. The Parties agree to:

1. Add a property (truck shop facilities) that was placed into service March 2014 but not included in the Company’s filing on April 3, 2014;
2. Not separate Property Tax Expense into regulated and non-regulated operations;[[8]](#footnote-9)
3. Adjust Staff’s three-factor allocation method to remove West Coast Paper Fiber’s (WCPF) operations from the calculation; and
4. Adjust Staff’s three-factor allocation method to reduce Waste Control Recycling’s (WCR) gross revenues for the cost of recycled materials.

**Q. Please briefly summarize WCI’s original position and subsequent position, prior to August 20, 2014, as related to Adjustment R-6G.**

A. In its Exhibit JD-11, the Company’s allocation included two steps. First, the Company allocated shared property tax expenses between WCI and the affiliates. Second, the Company allocated that portion of property tax expense attributed to WCI between regulated and non-regulated operations. In the first four versions of Exhibit JD-11, the Company allocated $8,500 in Property Tax Expense to regulated operations. In the fifth version of Exhibit JD-11, the Company allocated $8,497 in Property Tax Expense to regulated operations. The decrease in allocated Property Tax Expense is due to WCI increasing its allocation to non-regulated operations.

In all five versions of Exhibit JD-11, WCI had removed all Property Tax Expense related to the Applied Industries property. WCI did not advise Staff that the truck shop facilities, located on the Applied Industries property, were placed into service.

**Q. Please summarize Staff’s original position on Adjustment R-6G and provided in testimony on July 18, 2014.**

A. Staff proposed to allocate the shared Property Tax Expense to WCI’s operations using the average percentage of three allocation factors: (1) number of employees, (2) gross revenues, and (3) fixed assets per book value. WCI’s portion of shared expenses was 21.8 percent. Staff included $6,162 total Property Tax Expense in the results of operations. As noted above, the Company did not advise Staff that the truck shop facilities were placed into service in March 2014.

**Q. Please summarize WCI’s most recent position on Adjustment R-6G.**

A. WCI’s most recent position, as reflected in Jackie Davis’ rebuttal testimony filed on August 20, 2014, includes $9,007 total Property Tax Expense. The Company’s proposal relies primarily on two changes to its methodology. First, WCI’s rebuttal testimony includes two-thirds (2/3) of the property taxes related to the truck shop facilities located on property purchased from Applied Industries. Second, WCI recommends adjusting the three-factor allocation to eliminate WCPF’s operations and reduce WCR’s gross revenues for the cost of recycled materials. WCI’s adjustments to the three-factor allocation method allocate 24.3 percent of shared expenses to WCI operations.

**Q. Did the Company provide additional information for Adjustment R-6G after Staff filed its testimony?**

A. Yes. After Staff filed its testimony, the Company filed the following information:

1. On August 20, 2014, in Jackie Davis’ rebuttal testimony, the Company first advised that the Applied Industries property related to the truck shop facilities was placed into service in March 2014, and the Company included property taxes for truck shop facilities.
2. On August 20, 2014, in Jackie Davis’ rebuttal testimony, the Company stated that WCPF is operated out of a WCPF employee’s home and therefore should not receive an allocated portion of shared expenses.
3. On August 21, 2014, the Company provided its proposed adjusted three-factor allocation calculation.

**Q. Please explain how the Company’s additional information impacted Staff’s analysis and supports the proposed settlement.**

A. Staff’s original analysis did not include the truck shop facilities placed into service in March 2014 because WCI did not include the truck shop facilities in all five versions of Exhibit JD-11 and did not advise Staff, until August 20, 2014, the truck shop facilities were placed into service. After reviewing Jackie Davis’ rebuttal testimony, Staff believes the truck shop facilities are used and useful to the regulated Company and the related allocated property tax expenses should be included to set rates that are fair, just, reasonable, and sufficient.

Staff’s original three-factor allocation method included WCPF operations because WCI did not advise Staff until August 20, 2014, that WCPF does not share facilities with WCI, Waste Control Equipment (WCE), and WCR. After reviewing Jackie Davis’ rebuttal testimony, Staff believes that WCPF should not be included in the three-factor allocation method or allocated a portion of costs incurred by the shared facilities.

Staff independently adjusts WCI’s proposed three-factor allocation by removing pass-through drop box disposal fees from WCI’s and WCE’s gross revenues. WCI’s disposal pass-through costs, WCE disposal pass-through costs, and WCR’s costs of recycled material are expenses that directly off-set gross revenues dollar-for-dollar. Staff believes that adjusting only WCR’s gross revenues would result in an allocation factor that would overstate the amount of shared expenses allocated to WCI’s operations.

Based on the additional information WCI provided on August 20 and 21, Staff’s analysis results in total Property Tax Expense of $8,647. WCI’s most recent proposal is total Property Tax Expense of $9,007. The difference between Staff’s and the Company’s current positions is $360. Staff recognizes that cost allocations are not perfectly precise and the Parties would incur significant costs in further litigation. As a result, Staff supports a Property Tax Expense of $9,007 for the purposes of settlement because litigating $360 is not in the public interest.

1. Spare Truck Rents Expense, Adjustment R-6H

**Q. Please explain the Parties’ proposed settlement as it relates to Adjustment R-6H, Spare Truck Rents Expense.**

**A.** The Parties agree to a final Spare Truck Rents Expense of $36,000. The Parties agree to:

1. Use the new spare truck usage data provided by the Company in Jackie Davis’ rebuttal testimony, filed on August 20, 2014;
2. Include in the results of operations the amount of $36,000 for Spare Truck Rents Expense lease agreement; and
3. Not separate Spare Truck Rents Expense into regulated and non-regulated operations.[[9]](#footnote-10)

**Q. Please briefly summarize WCI’s original position and subsequent position, prior to August 20, 2014, as related to Adjustment R-6H.**

A. In its Exhibit JD-11 and four subsequent workbook versions, the Company proposed a cost plus a return calculation to support its Spare Truck Rents Expense of $36,000.

All five versions of the Company’s cost plus a return calculation included:

1. 75 percent allocation of Spare Truck Rents Expense to WCI operations based on management’s best estimate of spare truck usage between WCI and WCE during the test year;
2. an asset specific capital structure, which resulted in zero percent debt and 100 percent equity;
3. 15 percent cost of equity; and
4. Five-year useful lives for trucks purchased used and 10-year useful lives for the truck purchased new.

The Spare Truck Rents Expense demonstrated by WCI’s cost plus a return calculation was $54,457 for the test year, or $18,457 more than the expense included in WCI’s results of operations.

**Q. Please summarize Staff’s original position on Adjustment R-6H and provided in testimony on July 18, 2014.**

A. Staff proposed to price the affiliated Spare Truck Rents Expense at cost plus a return. Staff’s calculation relied on:

1. Approximately 26 percent, 12 percent, and 23 percent allocation of costs associated with spare trucks no. 3, 6, and 29, respectively, to WCI operations. Staff allocated Spare Truck Rents Expense based on a ratio defined as the number of times WCI used each spare truck divided by the number of collection days (260) per year.[[10]](#footnote-11)
2. Actual capital structure of the lessor entity, WCE, which resulted in 51.5 percent debt and 48.5 percent equity. Staff relied on WCE’s 2013 balance sheet to calculate capital structure.
3. 11.8 percent cost of equity. Staff used the Discounted Cash Flow (DCF) method to estimate a market equity return for WCE.
4. Five-year useful lives for all trucks. Staff used five-year depreciable lives because WCE’s depreciation schedule uses five-year depreciable lives.
5. 6.1 percent cost of debt. Staff used WCE’s 2013 balance sheet and interest expense to calculate WCE’s actual cost of debt.

Staff calculated $9,246 in allowable expense and allocated $8,404 total Spare Truck Rents Expense to regulated operations.

**Q. Please summarize WCI’s most recent position on Adjustment R-6H.**

A. WCI’s most recent position, as reflected in Jackie Davis’ rebuttal testimony filed on August 20, 2014, includes $40,013 total Spare Truck Rents Expense. The Company’s most recent calculation includes:

1. 64 percent allocation of Spare Truck Rents Expense to WCI operations and eight percent sales tax on the annual Spare Truck Rents Expense lease payment;
2. an asset specific capital structure which resulted in zero percent debt and 100 percent equity;
3. 15 percent cost of equity;

WCI agrees for the purposes of settlement to use the unadjusted lease payment amount of $36,000 for Spare Truck Rents Expense.

**Q. Did the Company provide additional information for Adjustment R-6H after Staff filed its testimony?**

A. Yes. After Staff filed its testimony, the Company filed the following:

1. On August 20, 2014, in Jackie Davis’ rebuttal testimony, the Company provided support and demonstrated a proposed spare truck usage. The Company used landfill tickets associated with each of the three spare trucks to calculate WCI and its affiliate’s usage. The newly-provided data demonstrates that WCI used the spare trucks 64 percent of the time during the test year.
2. On August 20, 2014, in Jackie Davis’ rebuttal testimony, the Company provided its spare truck lease payment state sales tax calculation. WCI used the state sales tax of eight percent and applied it to WCI’s $36,000 lease payment to WCE.

**Q. Please explain how the Company’s additional information impacted Staff’s analysis and supports the proposed settlement.**

A. Staff’s original analysis did not include the actual spare truck usage data because WCI did not provide it until August 20, 2014. The actual usage data indicates that 64 percent of Spare Truck Rents Expense should be allocated to WCI operations. However, Staff maintains its position of pricing the affiliate transaction at cost plus a return using the total WCE capital structure, total WCE cost of debt, and the DCF calculated cost of equity.

Using the revised allocation based on landfill tickets and including state sales tax, Staff calculates $35,544 total allowable cost for the test year. The difference between the $36,000 lease agreement and Staff’s calculation is $456. Staff recognizes that cost allocations are not perfectly precise, and all parties would incur significant costs in litigation. Therefore, Staff supports Spare Truck Rents Expense of $36,000 for the purposes of settlement because litigating $456 is not in the public interest.

1. Capital Structure in Lurito-Gallagher, Adjustment R-8

**Q. Please explain the Parties’ proposed settlement as it relates to Adjustment R-8, Capital Structure for use in the Lurito-Gallagher calculation.**

**A.** The Parties agree to a final Capital Structure for use in the Lurito-Gallagher calculation of 40 percent debt and 60 percent equity. The Parties agree to:

1. Use WCI’s most current balance sheet as of June 30, 2014, to determine WCI’s most current capital structure, provided on August 27, 2014; and
2. Include equity capped at 60 percent (therefore debt is 40 percent) for use in the Lurito-Gallagher to calculate WCI’s revenue requirement.

**Q. Please briefly summarize WCI’s original position and subsequent position, prior to August 20, 2014, as related to Adjustment R-8.**

A. In its Exhibit JD-11, Excel workbook and four subsequent workbook versions, the Company proposed to adjust its test year capital structure by adjusting equity for the difference between the accumulated depreciation calculation for rate making purposes and WCI’s per books accumulated depreciation. [[11]](#footnote-12) As a result of WCI’s adjustments to equity, the Company proposed a hypothetical capital structure where equity was capped at 60 percent (therefore debt was 40 percent).

**Q. Please summarize Staff’s original position on Adjustment R-8 and provided in testimony on July 18, 2014.**

A. Staff recommended rejecting WCI’s hypothetical capital structure and recommended using the most current calculation of WCI’s actual capital structure based on WCI’s balance sheet, as of December 31, 2013. Staff recommended a capital structure of 42.75 percent debt and 57.25 percent equity.

**Q. Please summarize WCI’s most recent position on Adjustment R-8.**

A. WCI’s most recent position, as reflected in Jackie Davis’ rebuttal testimony filed on August 20, 2014, advocates using a hypothetical capital structure, where equity is adjusted for the difference between accumulated depreciation calculated for rate making purposes and WCI’s per books accumulated depreciation.[[12]](#footnote-13)

However, WCI agrees, for the purposes of settlement, to use its most current balance sheet as of June 30, 2014, as a basis for including a hypothetical capital structure capped at 60 percent equity (therefore debt is 40 percent).

**Q. Did the Company provide additional information for Adjustment R-8 after Staff filed its testimony?**

A. Yes. After Staff filed its testimony, the Company filed the following information:

1. On August 27, 2014, the Company provided its balance sheet as of June 30, 2014. WCI’s most current balance sheet shows a capital structure of 39.6 percent debt and 60.4 percent equity.
2. On August 28, 2014, the Company provided explanation for increases in equity related to Additional Paid-in Capital.

**Q. Please explain how the Company’s additional information impacted Staff’s analysis and supports the proposed settlement.**

A. Staff’s original analysis included the most current capital structure available, as of December 31, 2013. Staff maintains that the use of the most current capital structure best reflects WCI’s financial risk. Staff also notes that the Company’s rate case has taken a substantial amount of time and that it is appropriate to update WCI’s capital structure to generate rates that are fair, just, reasonable, and sufficient.

Therefore, Staff supports using WCI’s most current balance sheet, as of June 30, 2014, as the basis for calculating the Company’s capital structure for use in the Lurito-Gallagher calculation. WCI’s balance sheet, as of June 30, 2014, shows 39.6 percent debt and 60.4 percent equity. The Parties’ proposal to calculate a revenue requirement using the hypothetical capital structure of 40 percent debt and 60 percent equity is reasonable and accurately reflects the Company’s financial risk.

1. Cost of Debt in Lurito-Gallagher, Adjustment R-9

**Q. Please explain the Parties’ proposed settlement as it relates to Adjustment R-9, Cost of Debt in Lurito-Gallagher.**

**A.** The Parties agree to a final Cost of Debt of 3.66 percent for use in the Lurito-Gallagher calculation. The Parties agree to:

1. Use the Company’s Exhibit JD-46 cost of debt calculation provided by the Company in Jackie Davis’ rebuttal testimony, filed on August 20, 2014, and follow-up supporting data provided on August 26, 27 and 28, 2014; and
2. Use Heirborne Investments, LLC’s (HBI) [[13]](#footnote-14) term loan cost of debt which includes interest expense and amortized term loan fees expense for the period ending June 30, 2014. WCI’s revenue requirement includes a cost of debt of 3.66 percent for use in the Lurito-Gallagher calculation.

**Q. Please briefly summarize WCI’s original position and subsequent position, prior to August 20, 2014, as related to Adjustment R-9.**

A. In its Exhibit JD-11 Excel workbook and four subsequent workbook versions, the Company proposed a cost of debt to reflect test year prime plus 200 basis points, which resulted in a 5.25 percent cost of debt.

**Q. Please summarize Staff’s original position on Adjustment R-9 and provided in testimony on July 18, 2014.**

A. Staff proposed a calculated 1.93 percent cost of debt to reflect HBI’s total company cost of borrowing funds. Staff’s recommendation was calculated using HBI’s total company interest bearing debt balance, as of December 31, 2013, and interest expense for a 12-month period ending December 31, 2013.

**Q. Please summarize WCI’s most recent position on Adjustment R-9.**

A. WCI’s most recent position, as reflected in Jackie Davis’ rebuttal testimony, filed on August 20, 2014, states that the Company generally agrees that WCI’s cost of debt should reflect HBI’s cost of debt. However, the Company states the actual cost of debt should not be based on HBI’s total company cost of debt. Instead, WCI’s cost of debt should reflect HBI’s cost of debt associated with term loan funds lent to WCI, as of June 30, 2014. The proposed calculation includes term loan interest expense and related amortized term loan fees expense. The actual cost of debt for HBI’s term loan debt is 3.66 percent.[[14]](#footnote-15)

**Q. Did the Company provide additional information for Adjustment R-9 after Staff filed its testimony?**

A. Yes. After Staff filed its testimony, the Company filed the following information:

1. On August 20, 2014, in Jackie Davis’ rebuttal testimony, the Company provided Exhibit JD-46 which demonstrates a portion of HBI’s cost of debt that relates to the funds lent to WCI.
2. On August 26, 2014, the Company provided support for HBI’s interest expense, interest rates and debt balances used in Exhibit JD-46.
3. On August 27, 2014, the Company provided support for HBI’s amortized loan fee expense.
4. On August 28, 2014, the Company provided HBI’s amortized loan fee expense general ledger detail and December 2011 invoices to support loan fees Staff flagged for review.

**Q. Please explain how the Company’s additional information impacted Staff’s analysis and supports the proposed settlement.**

A. Staff’s original analysis included HBI’s total company cost of debt, as of June 30, 2013. Staff maintains that the cost of debt should reflect the affiliate lender’s cost and be based on the most current information available. The new data provided by WCI includes all costs of debt.

Staff’s review and analysis of WCI’s cost of debt calculation and supporting documentation resulted in Staff calculating a 3.63 percent cost of debt. The 0.03 percent difference between WCI’s 3.66 percent and Staff’s 3.63 percent reduces the revenue requirement by $179. Therefore, Staff supports a cost of debt of 3.66 for the purposes of settlement because litigating $179 is not in the public interest.

1. Labor Expense, Adjustment P-1

**Q. Please explain the Parties’ proposed settlement as it relates to Adjustment P-1, Labor Expense.**

A. The Parties propose a final Labor Expense of $860,325. The Parties agree to:

1. Include an additional $6,162 (or 0.67 percent) pro forma adjustment for COLA wage increases provided to all employees on July 1, 2014; and
2. Not separate Labor Expense into regulated and non-regulated operations.[[15]](#footnote-16)

**Q. Please briefly summarize WCI’s original position and subsequent position, prior to August 20, 2014, as related to Adjustment P-1.**

A. In its Exhibit JD-11, Excel workbook and four subsequent workbook versions, the Company proposed a pro forma adjustment to increase labor expenses annually on both July 1, 2013, and July 1, 2014, for COLA allowances. WCI included in its labor calculation COLA increases of two percent for each date. For July 1, 2013, WCI included an additional $20,065 in labor expense. For July 1, 2014, WCI included an additional $18,037 in labor expense. WCI allocated the adjusted test year labor expense between regulated and non-regulated operations.

In the first four versions of Exhibit JD-11, the Company allocated $828,016 labor expense to regulated operations. In the fifth version of Exhibit JD-11, the Company allocated $827,782 labor expense to regulated operations. The decrease in allocated labor expense is due to WCI increasing its allocation to non-regulated operations.

**Q. Please summarize Staff’s original position on Adjustment P-1 and provided in testimony on July 18, 2014.**

A. Staff’s testimony included both WCI’s proposed two percent COLA increases. Staff recommended the allocation of $788,374 labor expense to regulated operations.

**Q. Please summarize WCI’s most recent position on Adjustment P-1.**

A. The Company granted a 2.67 percent COLA increase to its employees on July 1, 2014. Prior to August 20, 2014, the Company’s case presented a two percent estimated COLA increase. The Company included $860,325 in total labor expense.

**Q. Did the Company provide additional information for Adjustment P-1 after Staff filed its testimony?**

A. Yes. After Staff filed its testimony, the Company filed the following information:

1. On July 15, 2014, WCI’s counsel emailed Staff’s counsel that the COLA labor increase effective July 1, 2014 was 2.67 percent.
2. On August 20, 2014, in Jackie Davis’ rebuttal testimony, the Company included a 2.67 percent COLA increase in Exhibit JD-49 for its employees on July 1, 2014.

**Q. Please explain how the Company’s additional information impacted Staff’s analysis and supports the proposed settlement.**

A. Staff’s original analysis included WCI’s proposed two percent COLA increase, effective July 1, 2014. After reviewing Jackie Davis’ rebuttal testimony, Staff believes the additional $6,162 (or 0.67 percent) increase to labor expense results in rates that are fair, just, reasonable, and sufficient.

1. Fringe Benefit Expense, Adjustment P-1A

**Q. Please explain the Parties’ proposed settlement as it relates to Adjustment P-1A, Fringe Benefit Expense.**

A. The Parties propose a final Fringe Benefit Expense of $277,528. The Parties agree to:

1. Add an additional $9,060 in Fringe Benefit Expense related to WCI’s contributions to employee Health Savings Accounts (HSA) plans; and
2. Not separate Fringe Benefit Expense into regulated and non-regulated operations.[[16]](#footnote-17)

**Q. Please briefly summarize WCI’s original position and subsequent position, prior to August 20, 2014, as related to Adjustment P-1A.**

A. In its Exhibit JD-11, Excel workbook and four subsequent workbook versions, the Company proposed a pro forma adjustment to increase Fringe Benefit Expense by approximately 16 percent.[[17]](#footnote-18) WCI allocated the adjusted test year Fringe Benefit Expense between regulated and non-regulated operations.

In the first four versions of Exhibit JD-11, the Company allocated $288,915 Fringe Benefit Expense to regulated operations. In the fifth version of Exhibit JD-11, the Company allocated $288,834 Fringe Benefit Expense to regulated operations.

**Q. Please summarize Staff’s original position on Adjustment P-1A and provided in testimony on July 18, 2014.**

A. Staff proposed removing WCI’s increase to medical insurance. Staff also recommended decreasing the period expense to reflect known and measurable costs based on WCI’s April 2014 medical and dental invoices. Staff recommended allocating $243,499 total Fringe Benefit Expense to regulated operations.

**Q. Please summarize WCI’s most recent position on Adjustment P-1A.**

A. The Company agrees with Staff’s fringe benefit pro forma adjustment and adds $9,060 for WCI’s contributions to employee HSA plans.[[18]](#footnote-19) In Jackie Davis’ rebuttal testimony, filed August 20, 2014, the Company included a $277,528 total Fringe Benefit Expense.

**Q. Did the Company provide additional information for Adjustment P-1A after Staff filed its testimony?**

A. Yes. After Staff filed its testimony, the Company filed the following information:

1. On August 20, 2014, in Jackie Davis’ rebuttal testimony, the Company provided clarification regarding WCI’s contributions to employee HSA plans.
2. On August 27, 2014, WCI provided support for its contributions to employee HSA plans.

**Q. Please explain how the Company’s additional information impacted Staff’s analysis and supports the proposed settlement.**

A. After reviewing Jackie Davis’ rebuttal testimony and supporting documentation, Staff believes including the additional $9,060 related to WCI’s contributions to employee HSA plans would result in rates that are fair, just, reasonable, and sufficient.

1. Fuel Expense, Adjustment P-4

**Q. Please explain the Parties’ proposed settlement as it relates to Adjustment P-4, Fuel Expense.**

A. The Parties propose a final Fuel Expense of $291,472. The Parties agree to:

1. Add fuel data based on the most recent 12-month period as required under WAC 480-70-346, provided by the Company in Exhibit JD-49 with rebuttal testimony filed August 20, 2014, which included fuel data for May 2014 through July 2014;
2. Not adjust Fuel Expense for increases in “Actual Misc Shop” supplies expenses; and
3. Not separate Fuel Expense into regulated and non-regulated operations;[[19]](#footnote-20)

**Q. Please briefly summarize WCI’s original position and subsequent position, prior to August 20, 2014, as related to Adjustment P-4.**

A. In the first four versions of Exhibit JD-11, the Company proposed an adjustment to increase fuel expenses based on the test year fuel expense and included costs for “Actual Misc Shop” supplies. In response to Staff’s Formal Data Request 9, WCI provided its fifth version of Exhibit JD-11 which included an increase in fuel expense and an increase in “Actual Misc Shop” supplies expense. The increase reflects the most recent 12-month period ending April 30, 2014. WCI allocated the adjusted test year Fuel Expense between regulated and non-regulated operations.

In the first four versions of Exhibit JD-11, the Company allocated $303,576 Fuel Expense to regulated operations. In the fifth version of Exhibit JD-11, the Company allocated $287,954 Fuel Expense to regulated operations. The decrease in allocated Fuel Expense is due to WCI increasing its allocation to non-regulated operations.

**Q. Please summarize Staff’s original position on Adjustment P-4 and provided in testimony on July 18, 2014.**

A. Staff proposed to adjust fuel expense to reflect the most recent 12-month period, ending April 30, 2014, which was the most current data available at the time of Staff’s testimony. Additionally, Staff removed the hardcoded expense increase related to “Actual Misc Shop” because the miscellaneous shop supplies are not fuel costs and do not require a pro forma adjustment per WAC 480-70-346. Staff recommended allocating $264,212 Fuel Expense to regulated operations.

**Q. Please summarize WCI’s most recent position on Adjustment P-4.**

A. WCI’s most recent position, as reflected in Jackie Davis’ rebuttal testimony filed on August 20, 2014, eliminates the increase to “Actual Misc Shop” from the pro forma fuel adjustment. The Company further agrees that WAC 480-70-346 requires fuel expense be updated to include the most recent 12-month period.[[20]](#footnote-21) WCI has updated the pro forma fuel calculation for May 2014 through July 2014. The Company included $291,472 total Fuel Expense.

**Q. Did the Company provide additional information for Adjustment P-4 after Staff filed its testimony?**

A. Yes. After Staff filed its testimony, the Company filed the following:

1. On August 20, 2014, in Jackie Davis’ rebuttal testimony, the Company provided fuel data for May 1, 2014 through July 31, 2014.

**Q. Please explain how the Company’s additional information impacted Staff’s analysis and supports the proposed settlement.**

A. Staff’s original analysis included fuel data for a 12-month period ending April 30, 2014. After reviewing Jackie Davis’ rebuttal testimony, Staff believes the additional $778 in Fuel Expense, which reflects WCI’s most recent12-month period fuel costs, results in rates that are fair, just, reasonable, and sufficient.

1. **REVENUE REQUIREMENT**

**Q. Please explain the rate increases proposed in the Partial Settlement Agreement.**

A. After thorough discussions, the Parties agree that the Partial Settlement Agreement does not include an agreed upon revenue requirement. The Parties do not agree to a revenue requirement because there are four remaining contested issues. Each of the Parties agree to concessions on matters and individual adjustments that are described above. While they have separate characteristics, each issue should be viewed as part of the overall Partial Settlement Agreement.

**VII. RATE SPREAD AND RATE DESIGN**

**Q. Please explain the rate spread and rate design proposed in the Settlement Agreement.**

**A.** While there is no agreement on revenue requirement, the Company and Staff agree to a rate design where non-regulated Kalama operations are directly assigned a portion of the final calculated additional annual revenue increase.

**VIII. STATEMENT OF PUBLIC INTEREST**

**Q. Please explain why Staff believes the proposed partial settlement agreement is in the public interest.**

A. The Partial Settlement Agreement represents a negotiated compromise among the Parties. Thus, the Parties have agreed that no particular party shall be deemed to have approved the facts, principles, methods, or theories employed by any other in arriving at the Partial Settlement Agreement, and that the terms incorporated should not be viewed as precedent setting in subsequent proceedings except unless expressly provided. In addition, the Parties have the right to withdraw from the Partial Settlement Agreement if the Commission adds any additional material conditions or rejects any material part of the Partial Settlement Agreement.

Staff has been working with WCI to incorporate new information and supporting data that supports WCI’s need to increase rates. Staff has reviewed the Company’s testimonies, filed on August 20, 2014, and subsequent follow-up data provided by WCI. Staff has determined that its position, filed July 18, 2014, needs to change to reflect additional costs that WCI has now supported. Including these additional costs, with the resolution of the remaining contested issues, would result in rates that are fair, just, reasonable, and sufficient.

**IX. CONCLUSION**

**Q. Please summarize why Staff supports the Settlement Agreement and recommends its approval by the Commission**

A**.** Staff believes the Partial Settlement, if accepted by the Commission, would result in rates that are fair, just, reasonable, and sufficient. The Partial Settlement will not be used to resolve issues in any future proceeding.

**Q. Does this conclude your testimony?**

A. Yes.

1. Testimony of Melissa Cheesman, WUTC v. Waste Control, Docket TG-140560, July 18, 2014, at 9-10. [↑](#footnote-ref-2)
2. *See supra* Section V.B. at pp. 16-18 for discussions on Staff’s adjustment to assets resulting in an adjustment to depreciation expense and average net investment. [↑](#footnote-ref-3)
3. Rebuttal Testimony of Jackie Davis, page 32, lines 2 through 4. [↑](#footnote-ref-4)
4. Rebuttal Testimony of Jackie Davis, page 31, lines 18 through 20. [↑](#footnote-ref-5)
5. Rebuttal Testimony of Jackie Davis, page 32, lines 5 through 11. [↑](#footnote-ref-6)
6. *See supra* Section V.A. at pp. 8-15 for discussion of why not separating regulated and non-regulated Kalama revenues and expenses is fair and reasonable in this docket. [↑](#footnote-ref-7)
7. Rebuttal Testimony of Jackie Davis, page 9, line 18 through page 10, line 3. [↑](#footnote-ref-8)
8. *See supra* Section V.A. at pp. 8-15 for discussion of why not separating regulated and non-regulated Kalama revenues and expenses is fair and reasonable in this docket. [↑](#footnote-ref-9)
9. *See supra* Section V.A. at pp. 8-15 for discussion of why not separating regulated and non-regulated Kalama revenues and expenses is fair and reasonable in this docket. [↑](#footnote-ref-10)
10. In Staff formal Data Requests 12-9 1(a), Staff requested support for WCI’s hardcoded 75 percent spare truck usage factor. WCI responded that it had “…used our reasonable good faith efforts to apportion and allocate the usage in the test period and cannot scientifically retroactively create contemporaneous records bifurcating actual time increment allocations between the regulated Company and affiliate WCE’s usage.” [↑](#footnote-ref-11)
11. As noted in Section V.A. of Staff’s testimony filed on July 18, 2014, the Company proposed to use different, longer asset lives for ratemaking purposes. Testimony of Melissa Cheesman, Exhibit No. \_\_ (MC-1T), at pp. 13-15. [↑](#footnote-ref-12)
12. Rebuttal Testimony of Jackie Davis, page 26, line 11 through page 27, line 12. [↑](#footnote-ref-13)
13. As previously discussed in Staff’s July 18, 2014 testimony, Heirborne Investments LLC, or HBI, is an affiliate entity. HBI borrows funds from a financial institution and then lends those funds to its affiliate entities, including WCI. Loans from HBI make up 100% of WCI’s debt. Testimony of Melissa Cheesman, Exhibit No. \_\_ (MC-1T), page 31, line 18 through page 35, line 15. [↑](#footnote-ref-14)
14. Rebuttal Testimony of Jackie Davis, page 29, line 21 through page 30, line 23. [↑](#footnote-ref-15)
15. *See supra* Section V.A. at pp. 8-15 for discussion of why not separating regulated and non-regulated Kalama revenues and expenses is fair and reasonable in this docket. [↑](#footnote-ref-16)
16. *See supra* Section V.A. at pp. 8-15 for discussion of why not separating regulated and non-regulated Kalama revenues and expenses is fair and reasonable in this docket. [↑](#footnote-ref-17)
17. Staff calculated WCI’s percentage increase as the difference between WCI’s 2014 estimated medical expense and the test year medical expense divided by the test year medical expense or . [↑](#footnote-ref-18)
18. Rebuttal Testimony of Jackie Davis, page 43, line 9 through page 44, line 13. [↑](#footnote-ref-19)
19. *See supra* Section V.A. at pp. 8-15 for discussion of why not separating regulated and non-regulated Kalama revenues and expenses is fair and reasonable in this docket. [↑](#footnote-ref-20)
20. Rebuttal Testimony of Jackie Davis, page 52, lines 1 through 12. [↑](#footnote-ref-21)