Stericycle Exhibit No. _____ (CD-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In Re Application of WASTE MANAGEMENT OF WASHINGTON, INC. d/b/a WM Healthcare Solutions of Washington 720 4th Ave. Ste 400 Kirkland, WA 98033-8136	Docket No. TG-120033 PREFILED TESTIMONY OF CHRISTOPHER DUNN

1. I am over the age of 18 and competent to testify to the matters addressed below.

2. I am Regional Operations Manager for Stericycle of Washington, Inc. ("Stericycle") and have held that position since April 2011. My responsibilities in my present position include the supervision of Stericycle's biomedical waste collection and transportation functions. From 1999 until April 2011, I served as Stericycle's Transportation Manager with direct responsibility for organizing and managing Stericycle's biomedical waste collection and transportation functions. From 1995 until 1999, I was employed by BFI Medical Waste Systems of Washington, Inc. ("BFI"), first as a tractor/trailer driver handling transfer shuttles throughout the state of Washington and subsequently as BFI's Transportation/Operations Manager with responsibility for managing BFI's collection and transportation functions in Washington, Oregon, Northern Idaho and British Columbia. I am knowledgeable about

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Washington's road systems, state and federal regulations affecting biomedical waste collection and transportation and all operational factors that affect biomedical waste collection and transportation.

3. I have reviewed the territory covered by the application filed by Waste Management of Washington, Inc. ("WM") in this proceeding (the "new territory") and have evaluated the effect of a loss of 10%, 25% and 50% of our business in the new territory in the event that WM's application is granted. I have assumed that this loss of business would be spread evenly across our customer base. This assumption is reasonable because WM would have an obligation to make its services known and serve generators throughout Washington if its application is approved.

4. As a general matter, our customers in the new territory are smaller and more dispersed than within the territory WM is currently authorized to serve. This is explained by the fact that a larger proportion of the new territory is comprised of rural areas which tend to have smaller and more dispersed biomedical waste generators.

5. I have reviewed the revenue we earn per customer pick-up or "stop" within the new territory and have compared that data with the revenue per customer pick-up or "stop" within the territory WM is currently authorized to serve. Our revenue per stop in the new territory is almost 19% lower than our revenue per stop in WM's existing service territory. This difference is consistent with the smaller size of our customers in the new territory.

6. I have reviewed our current collection routes for service to customers in the new territory and have compared those routes to our collection routes in WM's existing territory. While our routes in many cases will serve locations in both of these areas and there are

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exceptions, in general, our collection routes in the new territory typically involve higher mileage and more drive-time per stop than our collection routes in WM's existing territory because our customers are more widely dispersed in the new territory. This means that our costs per stop are higher on routes within the new territory than within WM's existing territory.

7. On the assumption that Stericycle's loss of customers will be spread evenly throughout the new territory, we will still be required to serve all of the principal localities within the new territory if WM's application is approved. This means that our mileage and drive-time costs in the new territory are largely fixed even if we lose business to WM. Thus, if we lose business as a result of WM's service in the new territory, we will not realize cost savings proportional to our revenue loss. Our costs will decline at a much lower rate than our revenue.

8. A simple example illustrates these circumstances. Stericycle is currently the exclusive provider of biomedical waste services to generators in Port Angeles and the surrounding area. Stericycle earns revenue from providing service to those generators, and also incurs costs associated with that service. If Waste Management obtains authority to serve that area and acquires, for example, 50% of the business, Stericycle will lose approximately 50% of its revenue from that area at current rates. However, to provide its remaining Port Angeles customers with service Stericycle will still have to drive collection trucks to the Port Angeles area and incur largely the same mileage and drive-time costs per trip. While certain other costs will vary with the reduction in the number of customers, such as container and treatment costs, the 50% reduction in Stericycle's revenue will not be matched by a 50% reduction in its costs. Stericycle's costs will decline much less. This cost pressure increases with the amount of

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business lost and can only be alleviated by raising rates or increasing the revenue per trip by reducing the frequency of service to Port Angeles.

9. To illustrate the effect of a loss of 10%, 25% or 50% of Stericycle's business in the new territory, I developed a model with our corporate accounting staff to show the cost effects of a reduction in customer stops of 10%, 25% or 50% in the new territory. This model is based on stop, cost, and revenue data for Stericycle in 2011.

10. Because our accounting system does not allow us to allocate costs between the new territory and WM's existing service territory, we developed this model on the assumption that our costs per stop in the new territory are the same as our costs per stop statewide and that the split between fixed and variable costs in the new territory is the same as the split between fixed and variable costs statewide.

11. If anything, these assumptions are conservative. In fact, our costs per stop and our fixed costs per stop are higher on average in the new territory because of the greater distances our collection drivers are required to drive to serve the generally more dispersed customer base we have in the new territory. So, the actual reduction in our costs due to the reduced number of customer stops would likely be significantly less than the model assumes and the cost pressure as revenue falls would likely be larger than the model indicates.

12. The cost effect model is presented as Exhibit A. The model shows that a 50% loss in customer stops and revenue in the new territory would only result in a 14% reduction in our costs. At a 10% or 25% loss in revenue, the model shows that these costs would be reduced by about 3% and 7%, respectively.

13. The substantially disproportionate effect on our costs that would result from a

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loss of business in the new territory would impose a serious squeeze on our margins – an effect that becomes more dramatic as the loss of business increases.

14. There is simply no doubt that a significant loss of business in the new territory would require Stericycle to take action to reduce its costs or increase its revenues. As discussed in the example above, the only way for Stericycle to reduce its collection costs is for Stericycle to reduce the frequency of its services to the outlying areas of the new territory. The only way for Stericycle to increase its revenues is by obtaining a rate increase from the Commission.

15. Because WM would be dealing with the same disproportionality between the revenues it could earn and the cost of service in the new territory, WM would face the same dilemma, assuming it actually serves throughout the new territory and does not content itself with serving the areas along the I-5 corridor. In effect, at existing service levels, the cost of serving places like Port Angeles would double, since both carriers would be making essentially the same trip, but they would split the existing revenue. This situation could not be sustained at existing rates and service levels. In my opinion, the result to customers of both companies would be higher rates or reduced service levels compared to the service level Stericycle is currently providing to customers in the outlying areas of the new territory – localities like Port Angeles, Aberdeen, Okanogan, Republic, Chewelah and Walla Walla and counties such as Skamania, Clallam, Jefferson, Grays Harbor, Pacific, Wahkiakum, San Juan, Klickitat, Okanogan, Ferry, Stevens, Pend Oreille, Lincoln, Adams, Whitman, Asotin, Garfield, Columbia and Walla Walla.

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I declare under penalty of perjury under the laws of the State of Washington and the United States that the foregoing is true and correct to the best of my knowledge and belief.

Dated this 1st day of October, 2012 at Kent, Washington

By ______________________
Christopher Dunn

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CERTIFICATE OF SERVICE

I, Vickie L. Owen, certify under penalty of perjury under the laws of the State of Washington that, on October 1, 2012, I caused to be served on the person(s) listed below in the manner shown a copy of PREFILED TESTIMONY CHRISTOPHER DUNN:

Washington Utilities and Transportation Commission 1300 S. Evergreen Park Dr. SW PO Box 47250 Olympia, WA 98504-7250 (360) 664-1160 records@utc.wa.gov	☐ Via Legal Messenger ☐ Via Facsimile ☒ FedEx ☒ Via Email
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Dated at Seattle, Washington this 1st day of October, 2012.

Vickie L. Owen

Vickie L. Owen
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Stericycle of Washington
Cost Effects of Business Loss in New Territory

	Stops	Revenue
State-wide	84,482.00	13,709,428.15
Current Territory	34,055.00	6,221,829.20
New Territory	50,427.00	7,487,598.95

Fixed Cost per Stop	60.480
Variable Cost per Stop	51.060

Lost Customers - New Territory		Lost Stops	Lost Revenue
	10%	5,042.70	748,759.90
	25%	12,606.75	1,871,899.74
	50%	25,213.50	3,743,799.48

10% Scenario	*Before*	*After*
State-wide Revenue	13,709,428.15	13,709,428.15
Lost Revenue		(748,759.90)
Fixed Costs	(5,109,471.36)	(5,109,471.36)
Variable Costs	(4,313,650.92)	(4,056,170.66)
Oper Profit	4,286,305.87	3,795,026.24
	31.3%	*27.7%*

25% Scenario	*Before*	*After*
State-wide Revenue	13,709,428.15	13,709,428.15
Lost Revenue		(1,871,899.74)
Fixed Costs	(5,109,471.36)	(5,109,471.36)
Variable Costs	(4,313,650.92)	(3,669,950.27)
Oper Profit	4,286,305.87	3,058,106.79
	31.3%	*22.3%*

50% Scenario	*Before*	*After*
State-wide Revenue	13,709,428.15	13,709,428.15
Lost Revenue		(3,743,799.48)
Fixed Costs	(5,109,471.36)	(5,109,471.36)
Variable Costs	(4,313,650.92)	(3,026,249.61)
Oper Profit	4,286,305.87	1,829,907.71
	31.3%	*13.3%*