



STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

1300 S. Evergreen Park Dr. S.W., P.O. Box 47250 • Olympia, Washington 98504-7250
(360) 664-1160 • TTY (360) 586-8203

May 17, 2011

STAFF TECHNICAL ASSISTANCE MODIFIED PROCEDURE FOR FUEL SURCHARGES

TO: REGULATED SOLID WASTE COMPANIES

RE: Commission Order 05, Docket A-042090

This Notice advises companies of the modification of the procedures for granting temporary fuel surcharges consistent with the commission's decision and order issued on April 20, 2011.

BACKGROUND

On March 18, 2011, the commission issued a Notice to Solid Waste Companies of Staff Recommendation for Fuel Surcharges, Opportunity to File Written Comments, and Open Meeting (Notice). Companies and interested parties filed written comments in response to the Notices. At the open meeting on April 14, 2011, the commission considered staff's recommendations, companies' comments and interested parties' written and oral comments submitted in this docket and in Docket T-101661.

The commission's Order 05, Docket A042090, directed staff to implement new procedures that balance the purposes of the temporary fuel surcharge mechanism with the statutory requirement that all rates and fares must be just, fair, reasonable, and sufficient. Specifically, the commission reinstated Order 02, keeping in effect the existing fuel surcharge mechanism and added two additional requirements, set forth in Order 05, ordering paragraph two:

- a) Only companies whose current rates or fares were established within three years prior to the application for a fuel surcharge should apply for such a surcharge, and companies whose rates or fares were established more than three years prior to the application will be subject to an earnings review and a possible formal proceeding to reduce those rates or fares; and
- b) A company applying for a temporary fuel surcharge must demonstrate as part of its application that the surcharge will not generate revenues in excess of the authorized portion of the difference between current fuel prices and the fuel costs embedded in the company's rates or fares that the surcharge is intended to recover, and the Commission Secretary shall reject any application that fails to make the requisite demonstration.



PROCEDURE

Appendix 1 contains a flow chart that outlines the new filing procedures set forth by the commission's order. Staff has included excerpts from A-042090, Order 05 in the flow chart to help orient the reader.

Step 1; Fuel Surcharge Calculation – The first step includes the same procedures and requirements established for the solid waste industry on October 26, 2005, at the commission's open meeting along with the addition of a fuel surcharge revenue test. Provided a company's filing complies with requirements, the outcome of the new process remains the same: Grant the company the authority add a temporary fuel surcharge to customer rates to become effective with less than statutory notice and grant a waiver of customer notice requirements.

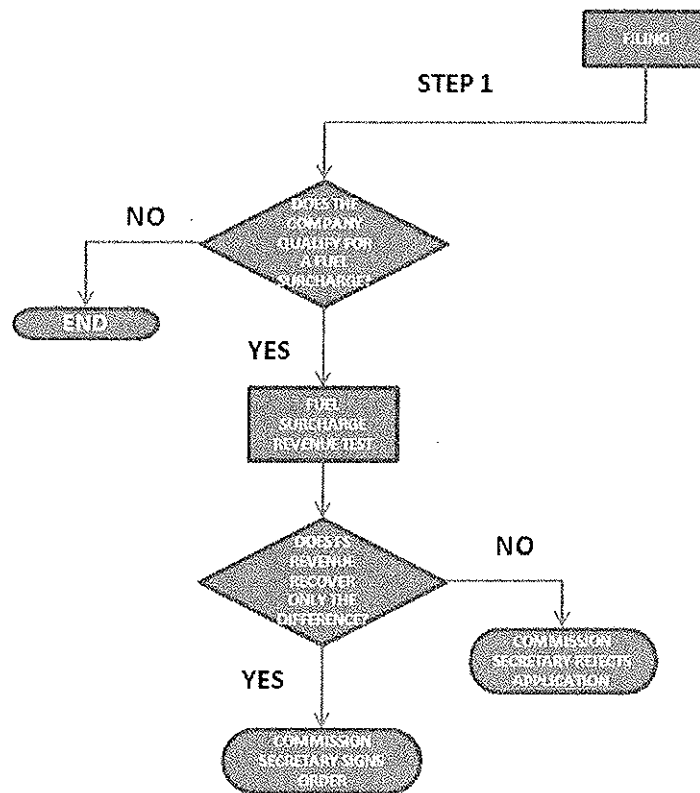


Figure 1 – Fuel Surcharge Procedure, Step 1

Step 1 begins with the company entering specific information into the commission's fuel surcharge worksheet, which will be provided to companies via the commission's website. To simplify data entry and calculation steps in the commission's fuel surcharge worksheet, companies need only enter:¹

- a. Company name;

¹ Table 1 shows the Data Entry Block where companies will enter their required information.

- b. Proposed Effective Date - The month the fuel surcharge is to go into effect; and
- c. Regulated Revenue (most recent filing with the UTC) - Regulated 12-month revenue; company's most recent 12-month period filed with the commission.²

Fuel Surcharge Worksheet (Solid Waste)		
INPUTS	a. Company Name	Company XYZ
	b. Proposed Effective Date	June 1, 2011
	c. Regulated Revenue (most recent filing with the UTC)	\$1,200,000

Table 1 - Fuel Surcharge Worksheet Data Entry Block

The new fuel surcharge worksheet will have already loaded into it, the following information for each company:

- **Base Revenue, Base Fuel Expense, Base Fuel and Current Fuel Index** - If a company has not had a general rate case with an effective date of January 1, 2005, or later:
 - Base Revenue is the revenue for total company operations for calendar year 2004.
 - Base Fuel Expense is the fuel expense net of fuel tax credits, discounts, and rebates, etc. for total company operations for calendar year 2004.
 - Base Fuel Index is the average Oil Price Information Service (OPIS) fuel index for calendar year 2004.
 - Current Fuel Index is the average OPIS fuel index for the most recent period equal to the time that the proposed surcharge will remain in effect, but no less than the company's billing period.

If a company has had a general rate case with an effective date of January 1, 2005, or later:

- Base Revenue is the pro forma revenue from the general rate case.
- Base Fuel Expense is the pro forma fuel expense from the general rate case.
- Base Fuel Index is the average OPIS fuel index price for the 12-month period used to determine the pro forma fuel expense.

² A company will enter the amount reflected in its most recent 12-month period filed with the commission. For example, a pro-forma 12-month regulated revenue requirement approved in a General Rate Case or disposal fee increase filing, effective on March 1, 2011, is a more recent 12-month period than calendar year 2010 reported in the company's annual report filed on May 1, 2011. It will be referred to from now on in this procedure as the "**company's most recent 12-month regulated revenue.**"

- Current Fuel Index is the average OPIS fuel index for the most recent period equal to the time that the proposed surcharge will remain in effect, but no less than the company's billing period.
- **Effective date of the company's last General Rate Case (GRC)** - Companies filing an application for a temporary fuel surcharge who have not had a rate case within the past three years will receive a message in the Output Block of the worksheet like the one shown in Table 2 below.³

OUTPUTS	1. Allowable Fuel Surcharge (Order 02 Methodology)	5.06%
	2. Staff Demonstrated Allowable Fuel Surcharge (Lesser of Line 31 or Line 47)	4.29%
	Your company's last general rate case is older than 3 years; and therefore, if you choose to file a fuel surcharge staff will conduct an earnings review and may request the commission to issue a formal complaint against rates pursuant to Order 05.	

Table 2, Fuel Surcharge Worksheet Output Block and Sample Message to Companies

- **Billing Period** – As was the case in the previous worksheet, each company will be allowed to recover the fuel surcharge using its normal billing cycle. The worksheet takes into account each company's billing cycle; whether it is monthly, bi-monthly or quarterly. Companies are to show the fuel surcharge as a separate line item on the customer's bill and notice customers on the bill, or by separate bill insert, that the commission authorized the temporary fuel surcharge.
- **Geographic Location** – For the purposes of determining which OPIS fuel index to use, a company is classified as being either "west" or "east" depending on their location within the state.

New worksheet - The actual calculation of the percent of a customer's rate that will comprise the fuel surcharge is accomplished by five separate calculations in the new worksheet. As part of its technical assistance to companies, staff has included as an attachment the new worksheet which will also be available online at the commission's website at the link below:

<http://www.utc.wa.gov/regulatedIndustries/transportation/solidWaste/Pages/FuelSurchargeForms.aspx>

The new worksheet accomplishes this by selecting the lesser result of items 1 and 2 in Table 2 above:⁴

³ The earnings review referred to in Table 2 above is outlined in Step 2.

⁴ Table 2 illustrates how the results will be displayed in the Output Block of the new worksheet.

- 1) Amount of revenue increase needed to recover fuel price increases - The calculation in this step is the same as the old methodology and is provided as a reference for the company and commission staff and to comply with Order 05 which specifies that the new fuel surcharge process encompass all of the procedures and requirements set forth on October 26, 2005, at the commission's open meeting; and
- 2) Staff's Fuel Surcharge Revenue Test - Demonstration of the allowable fuel increase and possible adjustment to allowable fuel increase. This is staff's calculation of the demonstration referred to in Order 05, Ordering Paragraph 2(b) that the surcharge will not generate revenues in excess of the authorized portion of the difference between current fuel prices and the fuel costs embedded in the company's rates that the surcharge is intended to recover.

As is noted in Calculation 5, Line 33 of the new worksheet, the commission, in Order 05, left open the possibility for companies to file additional data or propose an alternate methodology to demonstrate that any proposed fuel surcharge will not generate excess revenues. A company seeking to propose an alternative to the commission staff's fuel surcharge revenue test must fully support its proposal. Staff may need additional time to analyze the company's proposal and may not complete its review in time for the commission to take action by the third business day after the commission receives the filing. Staff may refer such proposals to the open meeting for the commissioners to consider.

Order 05 directs the Commission Secretary to reject any application that fails to make the requisite demonstration in either the fuel surcharge revenue test or an approved alternate.

Step 2 – The commission specified the earnings review in the excerpt from Order 05 below:

“We rescind Orders 03 and 04 but direct Staff to investigate the earnings of all companies that apply for fuel surcharges and have not had a rate case within the three years prior to filing their temporary fuel surcharge application.”

The guidance provided by the commission is that staff is to conduct its earnings review independent of processing of the fuel surcharge application. The earning's review may result in commission staff deciding to seek a formal rate review if it believes that the company is over earning.

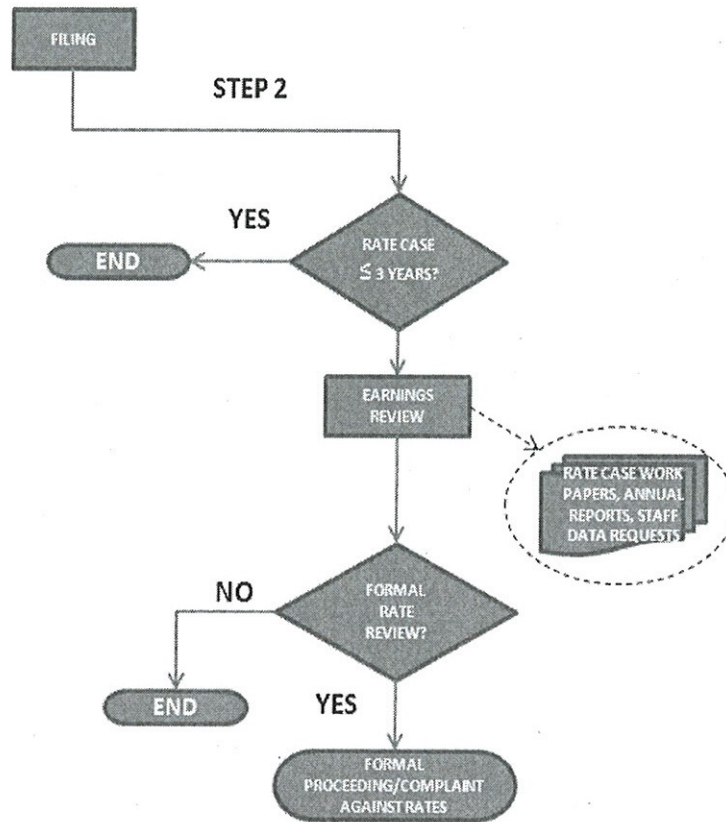


Figure 2 – Fuel Surcharge Procedure, Step 2

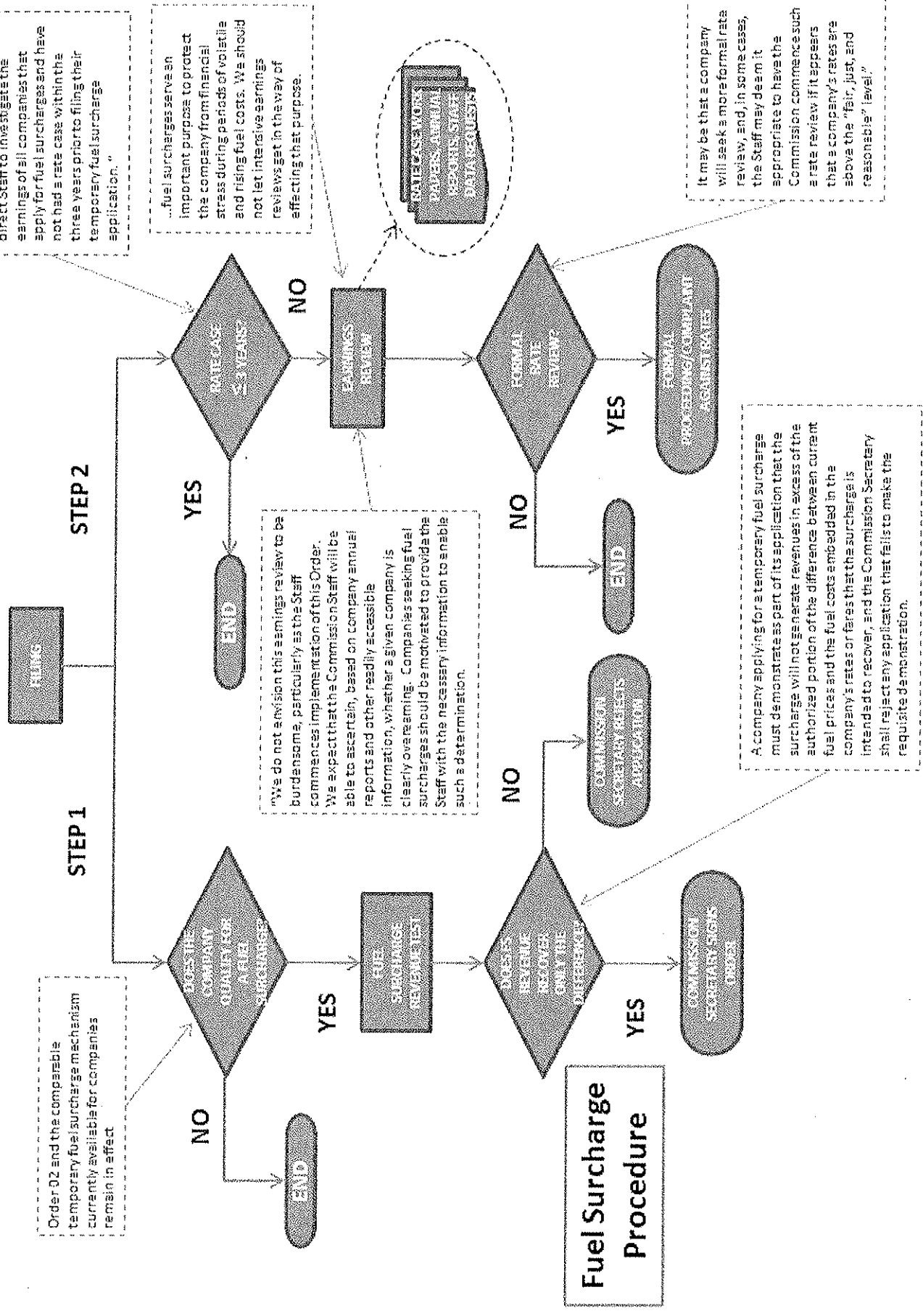
Questions may be addressed to David Gomez at (360) 664-1240 or e-mail at dgomez@utc.wa.gov.

Sincerely,

Eugene K. Eckhardt
Assistant Director – Solid Waste, Transportation and Water
Regulatory Services Division

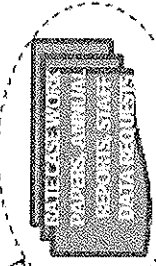
Enclosures (2)

APPENDIX 1



"We rescind Orders 03 and 04 but direct Staff to investigate the earnings of all companies that apply for fuel surcharges and have not had a rate case within the three years prior to filing their temporary fuel surcharge application."

"...fuel surcharges serve an important purpose to protect the company from financial stress during periods of volatile and rising fuel costs. We should not let intensive earnings reviews get in the way of affecting that purpose."



It may be that a company will seek a more formal rate review, and, in some cases, the Staff may deem it appropriate to have the Commission commence such a rate review if it appears that a company's rates are above the "fair, just, and reasonable" level."

"We do not envision this earnings review to be burdensome, particularly as the Staff commences implementation of this Order. We expect that the Commission Staff will be able to ascertain, based on company annual reports and other readily accessible information, whether a given company is clearly over-earning. Companies seeking fuel surcharges should be motivated to provide the Staff with the necessary information to enable such a determination."

A company applying for a temporary fuel surcharge must demonstrate as part of its application that the surcharge will not generate revenues in excess of the authorized portion of the difference between current fuel prices and the fuel costs embedded in the company's rates or fares that the surcharge is intended to recover, and the Commission Secretary shall reject any application that fails to make the requisite demonstration."

Fuel Surcharge Procedure

Fuel Surcharge Worksheet (Solid Waste)

INPUTS	a. Company Name	Company XYZ
	b. Proposed Effective Date	June 1, 2011
	c. Regulated Revenue (most recent filing with the UTC)	\$1,200,000

OUTPUTS	1. Allowable Fuel Surcharge (Order 02 Methodology)	5.06%
	2. Staff Demonstrated Allowable Fuel Surcharge (Lesser of Line 31 or Line 47)	4.29%

Your company's last general rate case is older than 3 years; and therefore, if you choose to file a fuel surcharge staff will conduct an earnings review and may request the commission to issue a formal complaint against rates pursuant to Order 05.

Line No.

1	1. Using the appropriate company name, look up base period information.		
2	Base Revenue	\$	1,114,538
3	Base Fuel Expense	\$	63,824
4	Base Fuel Index Period		December 31, 2004
5	Effective Date (GRC)		January 1, 1998
6	Billing Period		3
7	Geographic Location		East
8	Annual Report Revenue (most recent)	\$	974,206
9			
10	2. Using the appropriate base period information, calculate how much of total revenue was spent on fuel.		
11	Base Fuel Expense	\$	63,824
12	Divided by Base Revenue	÷ \$	1,114,538
13	Equals Base Fuel vs. Base Revenue Ratio	=	0.0573
14	Multiplied By 100	×	100
15	Equals Base Fuel Expense as % of Base Revenue	=	5.73%
16			
17	3. Calculate the fuel index increase.		
18	Current OPIS Fuel Index	\$	3,9646
19	Minus Base Fuel Index	-	\$ 1,9274
20	Equals Difference in Fuel Index Price	= \$	2,037
21	Divided By Base Fuel Index	+ \$	1,927
22	Equals Relative Fuel Index Price Difference Ratio	=	1.0570
23	Multiplied By 100	×	100
24	Equals Fuel Index Percent Increase	=	105.70%
25			
26	4. Calculate amount of revenue increase needed to recover fuel price increases -The calculation in this step is the same as the old methodology and is provided here as a reference for the company and commission staff and to comply with Order 05 which specifies that the new fuel surcharge process encompass all of the procedures and requirements set forth on October 26, 2005, at the commission's open meeting.		
27	Base Fuel Expense as % of Base Revenue		5.73%
28	Multiplied By Fuel Percent Price Increase	×	105.70%
29	Equals Fuel Index Increase as a % of Base Revenue	=	6.06%
30	Minus One Percentage Point	-	1.00%
31	Equals Allowable Fuel Increase as a % of Base Revenue	=	5.06%
32			
33	5. Fuel Surcharge Revenue Test - Demonstration of the allowable fuel increase and possible adjustment to allowable fuel increase. This is staff's calculation of the demonstration referred to in Order 05, Ordering Paragraph 2(b) that the surcharge will not generate revenues in excess of the authorized portion of the difference between current fuel prices and the fuel costs embedded in the company's fares that the surcharge is intended to recover. A company may file additional data and methodologies that they believe makes the same demonstration.		
34	Allowable Fuel Increase as a % of Base Revenue (Line 31)		5.06%
35	Multiplied by Base Revenue	× \$	1,114,538
36	Equals Allowable Fuel Increase to Base Revenue	= \$	56,358
37			
38	Base Fuel Expense as % of Base Revenue (Line 15)		5.73%
39	Multiplied by Most Recent Regulated Revenue (greater of Line 8 or Input "Regulated Revenue")	× \$	1,200,000
40	Equals Fuel Expense as \$ of Most Recent Regulated Revenue	= \$	68,760
41			
42	Base Fuel Expense (Line 3)	\$	63,824
43	Plus Allowable Fuel Increase to Base Revenue (Line 36)	+	\$ 56,358
44	Minus Fuel Expense as \$ of Most Recent Regulated Revenue (Line 40)	-	\$ 68,760
45	Equals Difference Between Fuel Expenses	= \$	51,422
46	Divided by Most Recent Regulated Revenue (Line 39)	+	\$1,200,000
47	Equals Demonstrated Allowable Fuel Increase as a % of Regulated Revenue	=	4.29%