BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

BASIN DISPOSAL, INC., Petitioner, v. WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION	DOCKET TG- PETITION OF BASIN DISPOSAL, INC. FOR ACCOUNTING ORDER

1 Pursuant to WAC 480-07-370, Basin Disposal, Inc. ("BDI" or "Basin") hereby petitions the Commission for an order authorizing the specific deferred accounting treatment outlined in this Petition. This petition follows the recently-completed general rate case filed by it under Docket No. TG-170189 and seeks to recognize, for purposes of the calculation of net average investment under the Lurito-Gallagher ("LG") ratemaking methodology first established by the Commission in Order TG-2016 et al, *In re Consolidated Garbage Cases* (Jan. 1988), the declining unamortized amounts authorized for recovery for environmental remediation costs now approved as a recoverable expense by the Commission in Order 01, *In re Basin Disposal, Inc.,* TG-170189.

2 BDI is a regulated solid waste collection company, under RCW 81.77.040, whose rates and charges, service levels and other operational characteristics are all subject to the jurisdiction of the Commission under RCW 81.77.030 for all its customers in unincorporated Benton, Franklin and Walla Walla Counties and in any municipal territory therein which has not opted out of Commission jurisdiction pursuant to RCW 81.77.020. BDI presently serves about 5,500 residential, commercial and industrial customers in that territory pursuant to its certificate of public convenience and necessity, Certificate G-118.

3 In the relatively short time interval following the filing of the general rate case on March 17, 2017 and the Commission's Order approving revised rates on May 31, 2017, there was insufficient time to review and thoroughly present to the staff why BDI believes it is consistent with past precedent and the Commission's Orders implementing the modified operating ratio

ratemaking methodology under Lurito-Gallagher ("L-G") to recognize the unamortized amount of the environmental remediation costs for inclusion in the rate base and the ultimate returns set by L-G, which should in fact include an incremental return of the allocated regulated, unamortized environmental remediation costs which, under Order 01, in the recent general rate case, is to be recovered in rates at approximately $36,000 annually.

4 The most basic rationale for allowing a return of the unamortized amount is an analogous principle recognized by the Commission's Order in TG-2016: that a return should be authorized in order to compensate the Company for non-recognition of a fully allowable expense which, until this year, was repeatedly disallowed on staff review. While it is also accurate to observe that deferred expenses are not typically subject to a return on investment, the unamortized amount at issue here represents more than a decade and a half of unrecognized remediation expenses which adversely impacted BDI's equity capital and whose recognition now for the purposes of calculating return would seem appropriate compensation to BDI for the depletion of equity capital that resulted from the prior staff disallowance of a return of ongoing remediation expenses, which would seem fully consistent with both the public interest and the principles of L-G ratemaking methodology.

5 The total expense authorized for recovery in TG-170189 includes a line item of $1,278,305 on which, as indicated, approximately $36,000 per year for regulated customers is being authorized for recovery in rates on an on-going basis.[1] Adding the new prospective amortization period to the 16 years during which the out-of-pocket remediation costs were not recognized as allowable expenses, means at present, there would be a 26-plus year period of no return on a sizeable portion of equity capital financed out of pocket by the Company shareholders and caused

[1] BDI is presently recouping allocated, nonregulated customer remediation costs in its largest municipal contract with the City of Pasco, and is also now seeking to recoup environmental remediation expenses in its other municipal contracts as they arise for rate adjustments and/or renewal.

principally by previous Staff denial of recognition of the remediation expenses as allowable expense, requiring additional capital for the ordinary funding of the Company's operations.

6 That of course is directly attributable to the overall environmental remediation expense non-recognition. Again, that deferred amount is indisputably a component of total equity capital, a component which the L-G methodology recognizes and attributes a return on capital.

7 In further response to the above circumstance, BDI is now positing two alternative remedies for this shortfall. The first is, rather than enable a return on the deferred asset at the overall Lurito-Gallagher rate it, instead, asks to be afforded a return at the lower Federal Energy Regulatory Commission ("FERC") rate (which is currently approximately 3.75%) over the amortization period. This would allow a lower overall return recognizing that the amount at issue is not a "used and useful" asset while also acknowledging that this was a return long-sought by BDI but previously, as noted, consistently disallowed by staff. The other alternative approach offered by Petitioner is a request that the recovery period under which the now-recognized expense is amortized be shortened from the 10-year period established in the recent rate case to a five-year amortization period. This would have the effect of abbreviating the interval in which the "stranded capital" is unavailable to Petitioner and allow it to be made financially whole more rapidly on the original deprivation of the expense in its rate base. The latter alternative is BDI's now-evolved preference, but either outcome would be welcomed and, in its view, far more equitable to the regulated company than outright denial of the previously-unrecognized PLP environmental remediation expense.

8 Attached as Exhibit 1, and incorporated by this reference, for illustration from BDI's most recent two general rate cases is the effect of including or excluding the featured expense from net average investment the calculated revenue requirements under Lurito-Gallagher. In BDI's case as demonstrated, this is a material amount and underscores the importance of this request for resolution to BDI and which resolution has obvious implications for other similarly-situated solid waste collection companies facing substantial environmental remediation costs and potential financial exposure, that without resolution, would only exacerbate the risk for proper capitalization of investor-owned solid waste collection companies in this state.

9 WHEREFORE Basin Disposal Inc. respectfully requests its Petition for an Accounting Order authorizing the treatment sought herein be granted.

DATED this 15th day of September, 2017.

RESPECTFULLY SUBMITTED,

By ______________________
David W. Wiley, WSBA #08614
dwiley@williamskastner.com

Attorney for Basin Disposal, Inc.

Exhibit 1

Basin Disposal, Inc.

Illustrative Calculations of Allowable Revenues using the Lurito-Gallagher Methodology

Basin Disposal has been incurring environmental remediation costs since 2001. The company presented those costs during a rate filing in 2005 which staff removed and disallowed. The costs were presented again in 2013 for recovery in Docket TG-130225. At that time, staff did not recognize the costs as operating costs, but included the regulated portion of accumulated costs as additional investment for inclusion in the Lurito-Gallagher model.

Calculated Average Investment - Docket TG-130225 - staff final Lurito-Gallagher Model with regulated portion of PLP Costs **included**	$1,600,036
Calculated Average Investment - Docket TG-130225 - staff final Lurito-Gallagher Model with regulated portion of PLP Costs **excluded**	$1,438,337

<u>Lurito Calculations from TG-130225 Case</u>

Allowable Revenue from Lurito Model which **includes** $161,699 of average investment	$ 348,621
Allowable Revenue from Lurito Model which **excludes** $161,699 of average investment	$ 323,954
Allowed additional revenue in TG-130225	$ 24,667

In the most recent general rate case, TG-170189, the company again presented cumulated incurred environmental remediation costs since 2001. Those costs totaled $1,278,306 in 2017. Staff reviewed those costs during a site visit on April 6, 2017. During that case, Staff agreed to allow amortization of those prior costs and include them in the rate base. However, at that time, Staff did not agree to include the unamortized portion of PLP costs in the Lurito-Gallagher Model, unlike the previous rate case.

Calculated Average Investment - Docket TG-170189 - staff final Lurito-Gallagher Model with regulated portion of PLP Costs **excluded**	$1,424,047
Calculated Average Investment - Docket TG-170189 - staff final Lurito-Gallagher Model with regulated portion of PLP Costs **included**	$1,761,313

<u>Lurito Calculations from TG-170189 Case</u>

Allowable Revenue from Lurito Model which **excludes** $337,266 of average investment	$ 412,657
Allowable Revenue from Lurito Model which **includes** $337,266 of average investment	$ 467,481
Revenue deficit in TG-1701895 with the average investment excluded	$ -54,824