

Agenda Date: March 27, 2008
Item Number: B4

Docket: TG-080298
Island Disposal, Inc., G-154

Staff: Layne Demas, Transportation Program Staff
Dennis Shutler, Consumer Program Staff

Recommendation

1. Issue a Complaint and Order Suspending the Tariff Revisions filed by Island Disposal, Inc.
2. Allow temporary rates at the staff recommended revised rates to become effective April 1, 2008, subject to refund.

Discussion

On February 15, 2008, Island Disposal, Inc., (Island or company), filed with the Washington Utilities and Transportation Commission (commission) tariff revisions that would generate approximately \$828,000 (18.8 percent) in additional revenue per year. The tariff revisions propose to increase rates for solid waste collection. Island serves approximately 10,900 residential and commercial customers on Whidbey Island. Island's last general rate increase became effective January 1, 2002. The proposed rate revisions are prompted by an increase in processing fees at the company's material recycling facility, fuel, labor and benefits.

Staff's analysis shows Island's proposed rates are excessive. Staff and company have negotiated revised rates that will generate approximately \$181,600 (4.12 percent) in additional revenue per year. On March 18, 2008, Island filed substitute pages with the commission. Island proposed a fixed fee on all residential service to recover costs associated with running its material recycling facility (MRF). The previous owner of the company built the MRF. It is part of an affiliate company called Whidbey Recycling Service. Island Disposal hauls residential solid waste to this private MRF and recyclables are removed for resale. Approximately ten percent of material hauled to the MRF is removed as recyclable material and the remaining waste is transported to the county's transfer station.

The revenue from the sale of these recyclables and the approximate ten percent cost savings in disposal fees were intended to offset the costs associated with running the MRF. There was never intent to make the ratepayers pay an additional charge to support the private MRF operation.

Waste Connections purchased Island Disposal and Whidbey Recycle Service. Waste Connections chose to continue to run the MRF in the same manner as the previous owner. Waste Connections has now determined that the MRF operation in Whidbey Recycling Service is not profitable. Waste Connections had been working with the county to establish a mandatory residential curbside recycling program. When that effort failed, Waste Connections included, as part of its proposed rates, a fee to recover the costs of operating the MRF.

The company filed revised rates that remove the “recycling” fee. The county can impose mandatory pay residential recycling program on customers. The company can implement a voluntary residential recycling program. However, the company cannot impose a mandatory pay residential recycling program on customers.

Island notified its customers of the proposed rate increase by mail on February 28, 2008. The commission received 41 comments on this filing. Some customers may have commented on more than one issue.

- Thirty one customers commented that the company is not providing a viable recycling program. Currently, recyclables go into the garbage can for possible removal later, causing customers to subscribe to a larger capacity garbage service than would be needed with a separate recycling program. They would appreciate a separate recycling program but having to pay for recycling and not receiving it is not fair or good business.

Staff Response: The company proposed a recycling program to Island County. It was on track until late 2006 when the county decided against a residential curbside program. The recycling processing fee the company originally proposed has been removed, with lower revised rates filed.

- Eight customers commented that if the company wants to offer different service levels, the rates should be proportionate. People who generate more garbage should get larger increases. In a day where we are supposed to encourage recycling and generate less waste, it is counterproductive to penalize those who generate less waste.

Staff Response: Staff recommends rates using a cost of service methodology that determines the spread between service levels. The company originally proposed a fixed fee on all residential service to cover recycling processing costs. This fixed fee narrowed the rate spread between service levels since everyone pays the same amount. The company subsequently eliminated the fixed recycling fee and the revised rates show a broader spread in rates.

- Five customers commented that the rate increase is too high.

Staff Response: The removal of the recycling processing fee and additional lower revised rates should mitigate that issue for the most part. Although staff understands the customer’s concerns regarding the amount of the increase, we do not explicitly consider the amount of the increase in preparing recommendations. Staff’s goal is to recommend the “right” rates that will allow the company to recover reasonable operating expenses and provide an opportunity to earn a reasonable return on investment.

- Two customers commented that you can tell it is garbage day because of the litter left behind by the disposal company.

Staff Response: Consumer Affairs staff contacted these customers and advised them to contact the company if it appears the driver did not perform to company standards.

- One customer would like a senior discount.

Staff Response: Unfortunately, senior discounts are a form of discriminatory action not allowed by the statutes. There are lower service levels at lower rates for everyone who generates less solid waste.

Although the company filed revised rates at lower levels, customers have not yet been advised that staff and the company have agreed to revised rates and, as such, have not had the opportunity to comment on the revised rates. Customers deserve to know about, and comment on, the proposed revised rates. The commission should consider all information, including any additional customer comments, in deciding whether to approve the proposed revised rates. Island Disposal, therefore, has not demonstrated the proposed revised rates are fair, just, reasonable, or sufficient.

Rate Comparison

<u>Residential - monthly rates</u>	<u>Present</u>	<u>Proposed</u>	<u>Revised</u>
One mini Can per week	\$ 12.32	\$ 17.66	\$ 12.92
One 32 gallon Can per week	15.50	21.03	16.26
Two 32 gallon Cans per week	22.37	28.31	23.46
<u>Commercial - per pickup</u>			
One Yard Container -1 st pick up	\$ 30.12	\$ 32.54	\$31.68
One Yard Container – additional pick ups	17.37	19.02	18.31
20 Yard Drop Box	68.17	74.68	71.90

Commission staff has completed its review of the company's supporting financial documents, books and records. Staff's review shows that the expenses are required and reasonable for the company's operation. The company's financial information supports the revised revenue requirement and the revised rates are fair, just, reasonable, and sufficient.

Conclusion

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