

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

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

**SUPPLEMENTAL TESTIMONY
OF LAYNE DEMAS
IN "PAPER-ONLY" PHASE OF GENERAL RATE CASE
FOR WASTE CONTROL, INC.
DOCKET NO. TG-140560
NOVEMBER 7, 2014**

1 **I. IDENTIFICATION OF WITNESS**

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND PROVIDE YOUR**
3 **BUSINESS ADDRESS FOR THE RECORD?**

4 A. Yes. My name is Layne Demas. My business address is 3715 N. Proctor, Tacoma, WA
5 98407.

6 **Q. IS YOUR BACKGROUND, RELEVANT EXPERIENCE AND PURPOSE IN**
7 **SUBMITTING TESTIMONY IN THIS RECORD STILL THE SAME AS THAT**
8 **YOU SUBMITTED UNDER EXHIBIT LD-1T ON AUGUST 20, 2014?**

9 A. Yes it is.

10 **II. PURPOSE OF TESTIMONY**

11 **Q. WHAT IS YOUR PURPOSE NOW IN PROVIDING SUPPLEMENTAL**
12 **TESTIMONY IN THIS RECORD?**

13 A. To address discrete issues on one of the remaining contested adjustments in this matter
14 that have not been resolved by the proposed partial settlement in this proceeding.

15 **III. UTILITY COST ADJUSTMENT R-6D/COMPANY WITNESS VIEWS**

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17 **Q. DO YOU HAVE ADDITIONAL VIEWS ON THE STAFF'S TREATMENT OF**
18 **UTILITY COSTS IN ITS ADJUSTMENT, R-6D, FOLLOWING PROPOSED**
19 **RESOLUTION OF NUMEROUS OTHER CONTESTED ADJUSTMENTS?**

20 A. Yes. My rebuttal testimony was and is directed to the land rents issue primarily, but it
21 also obviously touched upon the attempted Kalama operations' separation by the Staff.
22 The latter is now presumably resolved and the former issue is still strongly contested
23 and on which I have nothing further new to add to my previous testimony at Exhibit
24 LD-1T, pp. 3-6, which I incorporate by reference, here.

1 **Q. WHAT ABOUT UTILITY COSTS AND THE STAFF'S THREE-FACTOR**
2 **ALLOCATION THEY PROPOSE IN THEIR CASE? WHY DO YOU NOT**
3 **AGREE WITH THAT APPROACH FOR UTILITY EXPENSE ALLOCATION?**

4 A. My original rebuttal testimony on allocators critiquing the Staff approach beginning at
5 LD-1T, p. 7 is all still pertinent to the attempted allocation of utility expenses by the
6 Staff amongst various shared WCI and affiliate facilities. Revenue and fixed asset net
7 book values allocators are wrong for the reasons addressed there. The number of
8 employees as an allocator again does have value for certain fixed general and
9 administrative ("G&A") overhead expenses, but is very inexact as an allocator criterion
10 for variable expenses such as utility consumption costs.

11 **Q. WHAT FLAWS DO YOU CONTINUE TO OBSERVE IN THE STAFF'S**
12 **RECOMMENDED RENDITION OF UTILITY COST ALLOCATION HERE?**

13 A. A number. Even putting aside my dispute with their choice of allocators, I find several
14 inconsistencies in their calculation method to attribute utility costs to WCI. For
15 instance, the Staff includes all the revenues, employees and net book asset values of all
16 WCI and affiliate shared facilities, including 100% of Waste Control Recycling
17 ("WCR") in determining each Company's allocator factor for its respective share of
18 utility expense from the actual allocation formula, but then excludes from the actual
19 utility allocation calculation most of the utility costs separately paid by WCR on its
20 own. This is an inconsistent approach.

21 **Q. HOW WOULD YOU MAKE THIS MORE CONSISTENT?**

22 A. The Staff would need to remove/carve out revenue, employees and assets related to
23 WCR's independent operations in unshared facilities/physical plant which has not been
24 attempted despite general provision to Staff of those costs. WCR's appropriate share of
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1 those costs has thus never been analyzed, let alone demonstrated by Staff's utility
2 expense allocator proposal.

3 **Q. WHAT OTHER FACTORS WOULD YOU ALLUDE TO IN IMPROVING THE**
4 **CONSISTENCY OF THE ALLOCATOR FACTORS USED BY STAFF TO**
5 **ARRIVE AT A SUPPORTABLE UTILITY COST ADJUSTMENT?**

6 A. As I described at lines 9 and 10 of p. 7 of my rebuttal testimony, WCI and its affiliates
7 have very different customer bases and operations and this creates obvious problems in
8 allocating shared utility expenses when one assumes the businesses use of the
9 buildings, and hence, consumption of utility expenses, are identical. One such example
10 would be generation of customer invoices. Since Waste Control Equipment ("WCE")
11 issues a single invoice per municipal customer, it obviously consumes far less
12 electricity in generating bills and applying and remitting payments than WCI, which
13 has hundreds of individual customers. Clearly, by that example, there would be no
14 comparison in allocating utility expenses to generate and manage accounts receivable
15 and payables for WCI versus WCE. This is just one example of the over-simplification
16 and understatement of utility expenses to the nonregulated affiliates wrought by Staff's
17 broad-brush "Three-Factor Allocators" for utility expenses.

18 **Q. WOULD THE COMPANY HOWEVER, ACCEPT THE STAFF "THREE-**
19 **FACTOR ALLOCATION" METHODOLOGY FOR UTILITY COSTS TO**
20 **RESOLVE THE ADJUSTMENT NOW?**

21 A. Yes, but only on the condition that all WCR utility expenses be included in the
22 allocation process.
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1 **Q. WHY IS THAT?**

2 A. As the Company has observed, WCR (Waste Control Recycling) has some of its own
3 independent operations and locations wholly apart physically and operationally from
4 WCI. In any attempt to allocate total company utility costs, it would be inappropriate to
5 exclude from the aggregate amount of Waste Control total company utility costs those
6 separate facility utility costs, which is what the Staff has done in its accounting
7 adjustment rendition for utility cost allocations. In other words, in its “three-factor
8 allocation” formula, the Staff has applied its percentage factor to a reduced aggregate
9 utility expense figure which excludes those facilities operated by Waste Control
10 Recycling, exclusively. Obviously, any allocated formula must instead include an
11 accurate aggregate denominator of total utility costs in order to appropriately arrive at
12 an allocated percentage of costs incurred by the regulated company. Under the Staff’s
13 current approach to utility cost allocation by numbers of employees, revenue and net
14 investment (Exhibit MC-7), you would similarly need to artificially reduce employee
15 numbers, revenue and net investment amounts if you were going to exclude the cost of
16 utilities consumed exclusively by WCR to be consistent. As noted, the result of the
17 current Staff formula application is to seriously overallocate the aggregate utility
18 expense and percentage allocated to WCR by ignoring utility costs incurred exclusively
19 by it yet including 100% of its operations in the allocating formula. This, of course,
20 then skews the utility expense allocation factor lower for WCI and WCE and results in
21 an inaccurate conclusion, even under the Staff’s own three-allocator formula
22 application.

23 **Q. DO YOU HAVE SOME ILLUSTRATIONS OF THESE POINTS?**

24 A. Yes. Below is a listing of all WCI and WCR properties by location and the current
25 utility expense allocations proposed by Company and by Staff:

Table 1
Compilation of Test Year Utility Expenses by Location

Property Description and Company Occupant	Company Annual Utility Expense	Amounts Allowed by Staff
WCI		
950 3rd Ave Longview 98632	\$ 1,365.69	\$ 1,365.69
1150 3rd Ave Longview 98632 (Wash Bay/TS Booths/Office Parking Lot)	10,483.24	10,483.24
1150 3rd Ave Longview 98632 (Main Office Building & Shop)	20,067.54	20,067.54
1152 River RD Longview 98632	27,906.60	27,906.60
WCR		
1152 River Rd	20,156.02	0
1154 River Rd	29,161.01	0
1154 River Rd	48.40	0
1133 3rd Ave	127.94	0
1135 3rd Ave	83.29	0
1157 3rd Ave	890.38	0
1145 3rd Ave #A	246.34	0
1150 3rd Ave	6,201.70	6,201.70
1152 3rd Ave	1,848.58	0
Total	\$118,586.73	\$66,024.77

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3 **Q. WHAT IS THE RESULT OF UTILIZING ALL WCR UTILITY EXPENSES
SUBJECT TO ALLOCATION?**

4 A. Applying all three Staff allocation criteria (total Company revenues, employees and
5 fixed assets), to *all* total Company utility expense consumed, the “three-factor” yields a
6 53.2% allocation to WCR. Yet, because Staff only applies the three-factor allocation to
7 *shared* utility expenses, WCR ends up with 73.9% of all Company utilities allocated
8 under the Staff rendition which is neither fair nor reasonable and significantly over-
9 allocates actual utility costs to WCR. Again, the Company position is that if Staff
10 insists on using the three-factor allocation formula which it can accept for the purpose
11 of compromise¹, that 23.4%-derived Staff allocator for utility costs must be applied to
12 the \$118,586.73 cumulative cost total rather than Staff’s aggregate utility expense of
13 \$66,024.77. The brief table below briefly summarizes the results of that computation:
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16 **Table 2.**
Summary of Proposed Results and Comparison with Staff Position

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	Utility Expense	Allocation Factor	Allowed Utility Expense
Company Position	\$118,586.73	23.4%	\$27,749.29
Staff Position	\$66,024.77	23.4%	\$15,424.04
Difference			\$12,325.25

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¹ The Company acknowledges here that its higher percentage allocation factor would not result in a material difference if the aggregate utility expense total it contends is accurate were to be accepted.

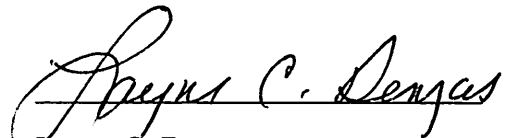
1 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY ON THE
2 APPROPRIATE ALLOCATION OF UTILITY COSTS UNDER THE STAFF'S
3 PROPOSED "THREE-FACTOR ALLOCATION" THEORY?

4 A. Yes it does.
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8 IV. DECLARATION

9 I hereby swear and affirm under penalty of perjury of the laws of the State of
10 Washington that the foregoing Supplemental Testimony of Layne C. Demas is true and correct
11 to the best of my knowledge and belief.

12 Signed at Tacoma, Washington, this 4 day of November, 2014.

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16 Layne C. Demas
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