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BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

HAROLD LeMAY ENTERPRISES, INC., ET
AL

Docket No. TS-040221

For an Extension of Certificate No.
G-98 for a Certificate of Public Convenience
and Necessity

.....
In re Application No. GA-079254 of

Docket No. TG-040248

KLEEN ENVIRONMENTAL
TECHNOLOGIES, INC.

For a Certificate of Public Convenience and
Necessity

.....
In re Application No. GA-079226 of

Docket No. TG-040553

RUBATINO REFUSE REMOVAL, INC.

For an Extension of Certificate No.
G-58 for a Certificate of Public Convenience
and Necessity to Operate Motor Vehicles in
Furnishing Solid Waste Collection Service

**PREFILED
TESTIMONY OF JOHN LLOYD**

1 **Q Please state your name and business address.**

2 A. John Lloyd, 13502 Pacific Avenue, Tacoma, Washington 98444; phone number
3 (253) 536-4416.

4
5 **Q. By whom are you employed and in what capacity?**

6 A. Harold LeMay Enterprises, Inc. ("LeMay Enterprises, Inc."); controller.

7
8 **Q. What is your educational background?**

9 A. I received a B.A. in Accounting from Western Washington University in 1990.

10 **Q. Please state your professional experience and qualifications.**

11 A. Shortly after graduation from college, I was employed by the Washington
12 Utilities and Transportation Commission as a Revenue Requirement Specialist. I held
13 that position for approximately five years from 1990 through 1995. I have been
14 employed at LeMay Enterprises since 1995 in the position of Assistant Controller from
15 1995 to 2001 and as the company Controller from 2001 to the present.

16
17 **Q. What is Harold LeMay Enterprises, Inc.?**

18 A. Harold LeMay Enterprises, Inc. is a regulated solid waste collection company
19 operating within the state of Washington with various regulated and unregulated
20 divisions encompassing recycling, yard waste, solid waste city contracts, transfer station
21 operations, real estate interests, and a medical waste division.

22
23 **Q. How many employees does LeMay Enterprises, Inc. have and how many of
24 those employees are drivers?**

25 A. LeMay Enterprises, Inc. currently has 467 employees approximately 255 of
26 whom are drivers.

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Q. What are your job functions as Controller at LeMay Enterprises, Inc.?

A. I supervise all accounting functions of the company, preparing all regulated rate filings as well. I also work without outside lawyers and accountants including McGladrey & Pullen, our corporate CPAs. Within LeMay, I am the main contact for year-end review and financial auditing at the company and I am the lead contact for governmental financial audits. I also perform cash management, treasury management, and investment management functions for the company. I also generally am involved in tariff formatting and overall WUTC rule compliance issues as they arise at the company.

Q. Can you please describe your specific experience in solid waste accounting?

A. As I have previously alluded, I was an employee of the WUTC revenue requirements section where I had responsibility for reviewing and auditing various rate proposals from regulated solid waste collection companies including large and small solid waste providers. I also had responsibility for reviewing and assessing annual reports filed by solid waste collection companies with the Commission and reviewing financial data included therein. I also was involved in training assistance functions with new staff members at the WUTC in teaching how to review and audit solid waste rate filings.

Q. Within LeMay Enterprises is the medical waste division a separate incorporated entity?

A. No, the medical waste operating unit of LeMay Enterprises is an operating division that is not separately incorporated but has its own equipment and drivers, as more specifically described in the testimony of Larry Meany.

1 **Q. Within LeMay Enterprises do individual operating units such as the**
2 **medical waste division compile their own financial statements?**

3 A. Yes, to the extent that separate operating divisions produce financial statements
4 reflecting their individual results of operations.

5
6 **Q. Since the medical waste division is not a separate legal entity from LeMay**
7 **Enterprises, how are costs and expenses allocated to the medical waste division at**
8 **LeMay?**

9 A. They are assigned by unit cost based on their utilization and/or assignment to a
10 particular operating division of the company. In other words for instance, trucks that
11 are dedicated to the medical waste division appear in the financial statement of the
12 division as an operating asset and costs of operating that equipment as expenses of the
13 medical waste division.

14
15 **Q. How are indirect overhead costs allocated to the medical waste division?**

16 A. Generally, those costs are based on proration of previously allocated expenses.

17
18 **Q. How are direct costs assigned to the operating divisions?**

19 A. Operating costs such as disposal fees and taxes are charged dollar-for-dollar to
20 the operating unit incurring the cost, including the medical waste division.

21 **Q. Correspondingly, how are medical waste revenues tracked within LeMay?**

22 A. The in house billing software program is very capable of calculating all income
23 generated by the medical waste division and reporting that to the medical waste division
24 as the appropriate operating division.

1 **Q. Over the past year, how much gross revenue has been generated by**
2 **LeMay's medical waste division as reflected in its operating statement?**

3 A. Approximately \$257,000.

4
5 **Q. Have you prepared a financial statement on the medical waste division's**
6 **results of operations for offer of admission into this record.**

7 A. Yes. It is Exhibit ____ (JL-1) for identification.

8
9 **Q. What time period does the financial statement from the medical waste**
10 **division encompass?**

11 A. It encompasses the 12-month period ending June 30, 2004.

12
13 **Q. Can you generally characterize the those results for our purposes here?**

14 A. Yes, it reflects a modest overall profitability for the medical waste division and
15 an operating ratio of approximately 99.5% in the year ending June 30.

16
17 **Q. Have you similarly prepared a tariff for the hearing record to address**
18 **present and/or proposed rate levels?**

19 A. Yes, that is Exhibit ____ (JL-2) for identification, and in fact is our current
20 approved WUTC tariff which we propose to apply in the new service territories
21 represented by this extension application in King and Kitsap County.

22 **Q. In your opinion, do the rates reflected in that tariff adequately reflect the**
23 **present service levels and the costs thereof for the service territory envisioned by**
24 **this application?**

25 A. Yes. Based on my analyses of the historic costs and revenues of the medical
26 waste division, I believe the tariff first approved by the WUTC in 1991 continues to

1 adequately and appropriately reflect our company's cost of service in providing medical
2 waste collection and disposal.

3
4 **Q. What is your analysis of the adequacy of present tariff rates to apply in the**
5 **expanded territories based on?**

6 A. It is based on the informed assumption that the relationship of added costs to
7 added revenues will not materially diverge from those experienced in our existing
8 service in Pierce, Thurston, Lewis, Mason, and Grays Harbor counties in serving our
9 present medical waste customers.

10
11 **Q. Have you performed any analysis of your rate design in comparison to that**
12 **of Stericycle of Washington, Inc., the protestant herein?**

13 A. Yes.

14
15 **Q. And what are your conclusions regarding that comparison?**

16 A. The present and proposed rates of LeMay are substantially similar to those of
17 Stericycle. However, our rates are based on a charge per gallon, not per container, as
18 Stericycle, and depending upon the level of service, there can be some variations. For
19 instance, for a smaller generator, i.e., a 33-gallon Stericycle container at the apparent
20 applicable of rate of \$51.47 per pick up compares to LeMay's 30-gallon charge of
21 \$49.20. Thus, our rates might be slightly less expensive but Stericycle does have a
22 slightly larger container. Since both companies indicate they do not offer credit for
23 partially-filled containers, as you can see, the costs are substantially similar. For a
24 medium sized generator customer, i.e., a customer who receives ten 33-gallon
25 containers at a pick up for Stericycle, or 330 gallons for LeMay, LeMay's rate would be
26 somewhat higher. Again, depending on the service level, there are slight variations in
price between the carriers.

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Q. How then would you describe the overall tariff comparison?

A. We have a different rate design but generate substantially similar revenues at various volume levels with divergence at particular price points that can be higher or lower than the protestant.

Q. Has anyone to your knowledge ever filed any objection to your medical waste tariff rate levels at the Commission?

A. Not to my knowledge.

Q. In relation to the expanded service by LeMay proposed for King and Kitsap counties, have you prepared a proforma financial statement quantifying current assets on hand and estimating various costs and expenses associated with the expanded service to be provided?

A. Yes. Exhibit ____ (JL- 3) for identification is that proforma financial statement.

Q. What time period does it cover?

A. It covers a proposed period for a year beginning in January 2005 which is our best estimate for when service might commence if this application is granted.

Q. And does it envision an operating profit?

A. Yes. Approximately of 3%, which I believe is consistent with the Lurito-Gallagher rate methodology used by the Commission in establishing solid waste rates.

Q. Can you please briefly characterize the assumptions you used in creating your proforma financial statement for the medical waste division for the year 2005?

1 A. Yes. As can be seen by the exhibit in contrast to our 2003-2004 actual results of
2 operations, I am factoring in a 20% growth in revenue for the medical waste division
3 which we feel is conservative. I am projecting operating costs and disposal fees at a
4 slightly lesser percentage increase of 18%. We believe the slightly lower incremental
5 increase in costs versus revenues is reasonable because our expanded service will
6 generally entail economies of scale and efficiencies that past experience in conventional
7 solid waste operations indicates will occur. While we acknowledge this projection is
8 preliminary and not predicated upon existing service in the proposed geographic
9 territories, we anticipate being able to experience better equipment utilization factors on
10 generally denser routes in the expanded territories as just one example of operating
11 efficiencies we think are likely to occur.

12 **Q. Does your proforma add to existing service territory revenues?**

13 A. No, and that is another aspect in which I believe Exhibit ____ (JL-3) is
14 conservative. I believe that we actually will generate additional sales volumes in
15 Pierce, Thurston, Grays Harbor, Mason, and/or Lewis counties if this application is
16 granted, simply because some generators in those territories will not presently tender us
17 their business because we are unable to serve them in King and/or Kitsap counties. By
18 adding these two counties, our service capabilities will thus be more complete to them.
19 However, I have not made any adjustment to the proforma financial statement for this
20 increased revenue potential.

21 **Q. Based on your recent historical results of operations and your proforma**
22 **financial statement and proposed rate levels comparable to existing rate charges,**
23 **what is your overall view with respect to the medical waste division's ability to**
24 **recoup its costs of service?**

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A. I am very optimistic that the proposed service will fully recoup its costs of service and generate a modest amount of operating profit for our company.

Q. If this application is granted, how would the applicant propose to finance the expansion of its medical waste service in King and Kitsap Counties?

A. LeMay Enterprises can finance any capital equipment acquisitions for its medical waste division comfortably through existing cash on hand. However, we also have access to bank financing through our lender, U.S. Bank, pursuant to a current revolving line of credit agreement at a \$4,000,000 level, none of which is presently outstanding. LeMay Enterprises, Inc. is currently the largest privately held solid waste collection company in the state of Washington and, as noted, has sufficient financial resources to fully support the proposed expanded service to our current and prospective medical waste customers.

Q. Does this conclude your direct examination testimony at this juncture?

A. Yes, at least at this initial stage of the proceeding.

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CERTIFICATE OF SERVICE

I hereby certify that on August 2nd, 2004, I caused to be served the original and six (6) copies of the foregoing document to the following address via first class mail, postage prepaid to:

Carole Washburn, WUTC Executive Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

I certify I have also provided to the Washington Utilities and Transportation Commission's Secretary an official electronic file containing the foregoing document via email to:

records@wutc.wa.gov

and an electronic copy via email to:

Ann E. Rendahl
Administrative Law Judge
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
P.O. Box 47250
Olympia, WA 98504-7250
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Greg W. Haffner
Curran,Mendoza, P.S.
P.O. Box 140
Kent, WA 98035
(253) 852-2345
gwh@curranmendoza.com

Dated this 12th day of August, 2004.


Cheryl L. Sinclair

TESTIMONY OF JOHN LLOYD
Harold LeMay Enterprises, Inc.

EXHIBIT 1

LeMay Enterprises-Med Waste Div.
Actual Results of Operations
12 Months ended 6/30/2004

<u>Account</u>	<u>Total</u>
OPERATING REVENUES	
BIOHAZARDOUS WASTE	257,120.18
OTHER	721.28
TOTAL REVENUE	257,841.46
OPERATING EXPENSES	
DRIVERS AND HELPERS	78,354.41
TRUCK OPERATING	12,258.32
TRUCK MAINTENANCE-LABOR	13,521.55
TRUCK MAINTENANCE-PARTS	6,991.00
TRUCK MAINTENANCE-OTHER	5,798.70
TIRES	57.89
TAXES AND FEES	11,945.64
INSURANCE	7,760.49
DEPRECIATION-TRUCKS	4,094.94
DEPRECIATION-CONTAINERS	1,111.03
DISPOSAL FEES	40,397.97
OTHER OPERATING EXPENSE	48,527.68
G&A WAGES	11,324.25
G&A OTHER	14,410.31
TOTAL OPERATING EXPENSES	256,554.18
NET OPERATING INCOME	1,287.28

TESTIMONY OF JOHN LLOYD
Harold LeMay Enterprises, Inc.

EXHIBIT 2

INFECTIOUS WASTE

Rates per Gallon (Collector-provided containers) Per Pick-up

<u>Quantity</u>	<u>Rate</u>	<u>Quantity</u>	<u>Rate</u>	<u>Quantity</u>	<u>Rate</u>	<u>Quantity</u>	<u>Rate</u>
0-10	1.90	251-260	.78	501-510	.60	751-760	.48
11-20	1.65	261-270	.76	511-520	.59	761-770	.47
21-30	1.64	271-280	.75	521-530	.59	771-780	.47
31-40	1.62	281-290	.74	531-540	.59	781-790	.46
41-50	1.60	291-300	.74	541-550	.58	791-800	.46
51-60	1.55	301-310	.73	551-560	.57	801-810	.45
61-70	1.47	311-320	.72	561-570	.57	811-820	.45
71-80	1.40	321-330	.71	571-580	.56	821-830	.45
81-90	1.32	331-340	.70	581-590	.56	831-840	.44
91-100	1.25	341-350	.70	591-600	.55	841-850	.44
101-110	1.18	351-360	.69	601-610	.55	851-860	.43
111-120	1.15	361-370	.67	611-620	.54	861-870	.43
121-130	1.10	371-380	.66	621-630	.54	871-880	.42
131-140	1.05	381-390	.65	631-640	.53	881-890	.42
141-150	1.00	391-400	.65	641-650	.53	891-900	.42
151-160	.98	401-410	.64	651-660	.53	901-910	.41
161-170	.96	411-420	.64	661-670	.52	911-920	.41
171-180	.94	421-430	.63	671-680	.52	921-930	.40
181-190	.92	431-440	.63	681-690	.51	931-940	.40
191-200	.90	441-450	.62	691-700	.51	941-950	.40
201-210	.88	451-460	.62	701-710	.50	951-960	.39
211-220	.85	461-470	.61	711-720	.50	961-970	.39
221-230	.82	471-480	.61	721-730	.49	971-980	.39
231-240	.80	481-490	.60	731-740	.49	981-990	.38
241-250	.79	491-500	.60	741-750	.48	991-1000	.38
1001 gallons to 1700 gallons			.37	1701 gallons and over		.31	

APPROVED

Limitations on Service

Eff. 9-29-91

LSN _____

IAA 76-910912

Docket _____

Other _____

By TL

1. Transporter reserves the right to refuse pickup for the following:
 - A. Leaking container
 - B. Damaged container
 - C. Over-filled container
2. Container sizes offered are 10, 20 and 30 gal. Credit shall not be given for partially empty containers.
3. On call service-add \$5.00 charge. Special pickup-add \$5.00.
4. Maximum weight allowance is as follows:
 - 10 gallon container--25 lbs.//20 gallon container--35 lbs.//30 gallon container--50 lbs.
5. The rates named herein include all costs of transportation, disposal and containers.

Issued: August 29, 1991

Effective September 29, 1991

Issued By: Harold LeMay Enterprises, Inc.

TESTIMONY OF JOHN LLOYD
Harold LeMay Enterprises, Inc.

EXHIBIT 3

LeMay Enterprises-Med Waste Div.
 Pro Forma Financial Stmt
 For projected Rate year 2005

Account	Total	Projected Increase	Pro Forma Levels
OPERATING REVENUES			
BIOHAZARDOUS WASTE	257,120	20%	308,544
OTHER	721	20%	866
TOTAL REVENUE	257,841		309,410
OPERATING EXPENSES			
DRIVERS AND HELPERS	78,354	18%	92,458
TRUCK OPERATING	12,258	18%	14,465
TRUCK MAINTENANCE-LABOR	13,522	18%	15,955
TRUCK MAINTENANCE-PARTS	6,991	18%	8,249
TRUCK MAINTENANCE-OTHER	5,799	18%	6,842
TIRES	58	18%	68
TAXES AND FEES	11,946	8%	12,925
INSURANCE	7,760	18%	9,157
DEPRECIATION-TRUCKS	4,095	18%	4,832
DEPRECIATION-CONTAINERS	1,111		1,111
DISPOSAL FEES	40,398	18%	47,670
OTHER OPERATING EXPENSE	48,528	20%	58,233
G&A WAGES	11,324	10%	12,457
G&A OTHER	14,410	10%	15,851
TOTAL OPERATING EXPENSES	256,554		300,275
NET OPERATING INCOME	1,287		9,134
Operating Ratio	99.50%		97.05%