

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

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

MURREY'S DISPOSAL COMPANY, INC.
d/b/a OLYMPIC DISPOSAL,

Respondent.

Docket No. TG-230778

RESPONDENT MURREY'S DISPOSAL COMPANY, INC'S

REBUTTAL TESTIMONY

OF JOE WONDERLICK

June 28, 2024

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

I. IDENTIFICATION OF WITNESS 1
II. SUMMARY OF TESTIMONY..... 1
III. CLARIFICATION OF THE REVENUE REQUIREMENT..... 2
IV. FAIR, JUST, AND REASONABLE COSTS..... 9
V. INSURANCE..... 15
VI. SEVERANCE..... 23
VII. INCENTIVE PLANS 26
VIII. SAFETY EVENT..... 33
IX. MEALS AND COMMUNITY EVENTS..... 34
X. STRANDED ASSET..... 35
XI. FUEL ADJUSTMENT. 36
XII. LATE-FILED RESPONSE TESTIMONY LEGAL FEE DISALLOWANCE 38
XIII. PENDING RATE CASE COSTS 40
XIV. CONCLUSION 41

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

EXHIBIT LIST		
Exhibit No.	Description	Page Referenced
230778-JW 26	Insurance Tables	7
230778-JW 27	Staff DR18 Response	23
230778-JW 28	Olympic EE Turnover 22-24	24
230778-JW 29	Staff DR 23 Response	26

RESPONDENT'S REBUTTAL TESTIMONY OF JOE
WONDERLICK- ii

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I. IDENTIFICATION OF WITNESS

1
2 **Q. Please state your name, business address and role at Murrey’s Olympic Disposal**
3 **(hereafter “Olympic” or “the Company”).**

4 A. My name is Joe Wonderlick, Pricing Manager for Waste Connections’ Western Region,
5 which provides administrative support to Olympic in filings with the Commission. My
6 business address is 808 Washington Street, Suite 300, Vancouver, WA 98660. I provided
7 direct Opening Testimony on behalf of the Company in the present docket on March 19,
8 2024.

9
10 **II. SUMMARY OF TESTIMONY**

11 **Q. Will you please describe the purpose of your testimony in this proceeding?**

12 A. Mr. Benjamin Sharbono provided testimony on behalf of the Commission in response to
13 the Opening Testimony filed by Mark Gingrich, Branko Terzic, and myself. The purpose
14 of my testimony is to respond to certain portions of Mr. Sharbono’s testimony in which
15 he contests our assertions or where he misinterpreted or misconstrued the meaning or
16 context of our testimony in defense of his proposed expense disallowances. Once
17 identified, I reconcile the Company’s case in light of Staff’s Testimony of May 29 which
18 was subsequently resubmitted on June 4 over the Company’s objections.

19
20 **Q. How is your testimony organized?**

21 A. My testimony starts with two “big picture” concerns and then addresses the individual
22 itemized expense areas which Mr. Sharbono disputes or contravenes in his testimony.
23 Specifically, my testimony is organized as follows:
24

Organization of Testimony

I. Identification of Witness
II. Summary of Testimony
III. Clarification of the revenue requirement
IV. Fair, just and reasonable costs
V. Insurance costs
VI. Severance costs
VII. Incentive plans
VIII. Safety events
IX. Meals and community events
X. Stranded asset
XI. Fuel adjustment when a fixed fuel purchase agreement is in place
XII. Late-Filed Response Testimony Legal Fee Disallowance
XIII. Pending Rate Case Costs
XIV. Conclusion

III. CLARIFICATION OF THE REVENUE REQUIREMENT

Q. In your view, did Mr. Sharbono clearly define and quantify the recommended revenue requirement or operating costs proposed by the UTC in his testimony?

A. Unfortunately, no. In my Original Testimony, I presented Exhibit JW-7C 230778-GRC-Murreys Olympic-Staff Wkbk-10-16-2023-Company Offer (hereafter Exhibit JW-7C). This exhibit identifies the Company’s total regulated revenue requirement starting at cell M7 on the LG Public-Regulated tab, broken down as follows, using information from the individual LG tabs that sum up to the LG Public-Regulated tab. The rate adjustment, adjustment percentage, and adjusted revenue are also available on the same LG tabs in the workbook.

Olympic's Initial Revenue Requirement Summary¹

Service Area:	Clallam	Jefferson	Mill	Total
Test Year Revenue	\$8,012,087	\$2,999,122	\$1,768,172	\$12,779,380
Rate Adjustment	\$ 931,504	\$ 416,316	\$ 282,280	\$ 1,646,135
Adjustment Percentage	11.63%	13.88%	15.96%	12.88%
Adjusted Revenue	\$8,943,590	\$3,415,438	\$2,050,452	\$14,425,514

Similarly, the starting point for the Company's operating expenses is at cell C6 in the LG Regulated tab and the supporting LG tabs for each of the three service areas as follows:

Olympic's Initial Operating Expense Summary²

	Clallam	Jefferson	Mill	Total
Operating Expense, as adjusted, for LG Model	\$3,386,947	\$3,124,494	\$1,911,168	\$13,244,033

Because Mr. Sharbono did not challenge my Original Testimony as to the starting point, I must assume that this is the correct starting point, and any adjustments that are proposed and ultimately accepted begin with these totals.

Q. Do Mr. Sharbono's requested adjustments refer to entity-wide totals, or to amounts associated only with regulated operations?

A. To my knowledge, all the adjustments named in his testimony refer to total expense incurred by Olympic, inclusive of both regulated and unregulated activity.

Q. How does this impact the magnitude of the adjustments proposed by Mr.

¹ JW-7C 230778-GRC-Murrays Olympic-Staff Wkbk-10-16-2023-Company Offer (Exhibit JW-7C), LG Tab for each service area.

²Exhibit JW-7C, LG Tab for each service area.

1 **Sharbono?**

2 A. Depending upon the type of expense, the percentage of that expense will vary based upon
3 the most appropriate allocator for the specific expense item. Common allocators include
4 Customer Count (██████████) and driver hours (██████████). Therefore, many
5 of Staff's adjustments are overstated as they apply to regulated operations, by factors of
6 ██████████%.

7
8 **Q. What is the significance of this overstatement?**

9 A. Frankly, it's a significant optical distortion to the reader of Mr. Sharbono's Reply
10 Testimony because the regulated impact of every amount provided in his testimony is
11 overstated by 40% or more. After reviewing the staff adjustments in response to the
12 Company's data requests, however, it is clear Mr. Sharbono acknowledged that the
13 company-wide totals must be allocated among the three regulated zones of Clallam
14 County, Jefferson County, and mill hauls in addition to unregulated totals. He simply
15 used total company amounts to simplify his testimony without clarifying that distinction.

16
17 **Q. Does the Company now concede to any of the adjustments proposed by Staff in
18 Benjamin Sharbono's testimony?³**

19 A. The Company was not persuaded by Staff's arguments and offers rebuttal testimony
20 against each of them in this Rebuttal Testimony, and the Rebuttal Testimony of Mr.
21 Branko Terzic. Furthermore, Staff brought forward additional questions about the
22 Company's insurance programs, so we now introduce Rebuttal Testimony from Ms.
23 Belinda Lopes, who represents the Company's insurance broker. Finally, Staff
24

³ Sharbono, BS-1CTr.

1 repeatedly stated that the Company did not provide sufficient evidence that its incentive
2 programs directly benefit the customer. In that regard, we provide testimony from Dr.
3 Peter Scontrino, an expert on workplace productivity, to offer his analysis and opinion on
4 the value and efficacy of Olympic's incentive programs. In combination, this group of
5 experts demonstrates and ratifies that the Company has made prudent business decisions
6 to manage the Company to the mutual benefit of ratepayers and shareholders at low and
7 reasonable cost.

8
9 **Q. Beyond challenging the conceptual nature of Staff's conclusions, do you have**
10 **concerns about the calculations behind the adjustments proposed in Staff's**
11 **Response Testimony?**

12 A. Yes. The Company has concerns with Staff's calculations regarding the insurance
13 disallowance of [REDACTED], the termination pay disallowance of [REDACTED], the employee
14 and community activity disallowance of [REDACTED], and the sale of asset disallowance of
15 [REDACTED]. Furthermore, the underlying insurance calculations reported in the table on
16 Pages 18-19 of Mr. Sharbono's testimony contain some material mathematical flaws. I
17 would like to address each of these items in turn.

18
19 **Q. Please describe your concerns with the insurance adjustment of [REDACTED].⁴**

20 A. In Exhibit JW-7C, the Company reported company-wide unadjusted insurance claims of
21 [REDACTED] and company-wide adjusted claims after normalization and pro forma
22 adjustments of [REDACTED]. The [REDACTED] recommended disallowance is nearly double the
23 amount that the Company is seeking to recover in rates. To the best of my knowledge, the
24

⁴ Sharbono,BS-1CTr, at 3:1.

1 disallowed amount recommended by Mr. Sharbono refers to the Company's original
2 filing on September 18, 2023⁵ and can be found in Exhibit A of that filing. That
3 workbook is no longer under consideration. In short, if the Commission were to adopt
4 the Staff's position of zero deductible charges, the adjustment to proposed operating costs
5 would be [REDACTED] and not Staff's proposed [REDACTED].

6 **Q. Please describe your concerns with the termination pay adjustment of [REDACTED].⁶**

7
8 A. This amount is the unadjusted total in the Company's test period. The Company already
9 provided a normalization adjustment in Exhibit JW-7C. The company-wide termination
10 pay after pro forma and restating adjustments is [REDACTED], of which a portion is allocated
11 to unregulated service areas. Again, using company-wide totals, Staff's recommended
12 adjustment of [REDACTED] exceeds the entire amount of the Company's request by [REDACTED].

13 **Q. Please describe your concerns with the Staff's employee and community activity
14 adjustment of [REDACTED].⁷**

15
16 A. In Opening Testimony, I recommended that the shareholders bear a 50% share of
17 community activity expense. The company-wide balance after restating and pro forma
18 adjustments, is [REDACTED]. The [REDACTED] figure is more than the Company is seeking to
19 recover in rates.

20 **Q. Please also describe your concerns with Staff's stranded asset adjustment of
21 [REDACTED].⁸**

22
23
24 _____
⁵ Exhibit 230778- JW-3C, Original Rate Case Submittal-Olympic GRC Pro form 7.31.23(C).

⁶ Sharbono, BS-1CTr, at 3:2.

⁷ Sharbono, BS-1CTr, at 3:2.

⁸ Sharbono, BS-1CTr, at 3:4.

1 A. The Company reported company-wide unadjusted Sale of Assets amount of [REDACTED]
2 and, after normalization and pro forma adjustments, the total is [REDACTED]. The [REDACTED]
3 recommended disallowance is more than double the amount that the Company is seeking
4 to recover in rates. To the best of my knowledge, the disallowed amount in the Staff
5 recommendation again refers back to the original filing on September 18, 2023. This
6 workbook is no longer under consideration as my Opening Testimony made clear.

7
8 **Q. Finally, please describe your concerns with Staff's insurance analysis on Pages 18-19**
9 **of Mr. Sharbono's testimony and in Staff's exhibit containing the underlying**
10 **analysis.⁹**

11 A. First, we observed that the totals on Page 18-19 of the Reply Testimony do not agree to
12 the totals in the underlying analysis. The total insurance cost of 10-year data with major
13 incidents amortized over 5 years is understated by [REDACTED] per year, and the 10-year
14 average with major incidents removed and amortized over 10 years total is understated by
15 [REDACTED]. In response to a Company Data Request, Mr. Sharbono acknowledged a transfer
16 error led to the discrepancies.

17
18 **Q. What about the underlying calculations?**

19 A. Staff's analysis seems to contain errors regarding inconsistent periods and reference
20 errors. A comprehensive discussion of the differences is now included in our Exhibit
21 230778-JW-26 Insurance tables. Examples include:
22
23
24

⁹ Exhibit 230778-Staff-Sharbono-Exh.BS-4C(C).

1 1) When calculating ten-year averages, Staff included blank cells in the Excel average
2 calculation. For the average formula to generate an average over the appropriate period,
3 years with zero expense must contain a zero as opposed to a blank cell.

4 2) When calculating the average major incident expense over five years, Staff used
5 incorrect cell ranges.

6 3) When calculating the average of major incidents over ten years, Staff averages some
7 claim years over five years and others over ten years.
8

9 **Q. Do these errors impact the validity of Staff's insurance analysis?**

10 A. In general, and in my opinion, yes. It is difficult to seriously evaluate the analysis given
11 the errors we identified; however, my greater concern is underlying
12 assumptions/perspectives about deductible expenses and the magnitude and stability of
13 insurance premiums. Those larger concerns again are addressed by the insurance expert
14 witnesses and later in my testimony.
15

16 **Q. How do you characterize your current perspective on these inconsistencies?**

17 A. It concerns me that Staff is apparently sourcing or reverting to superseded adjustments
18 from the Company's original filing when my Opening Testimony clearly set out a revised
19 baseline that was predicated on Staff's own workpapers provided to the Company in
20 October 2023 and that Staff now proposes material adjustments in excess of the expenses
21 the Company included in its revenue requirement analysis. Even if Staff disagrees with
22 the inclusion of an expense, I would think Staff would adjust removal of that expense to
23 the amount included in the reduced revenue requirement proposal set forth in my
24 Opening Testimony. The effect of not doing so would seem to overstate the magnitude

1 of the adjustments in Staff's testimony and place the Company in a highly vulnerable
2 position should their adjustments be accepted at face value.

3 **IV. FAIR, JUST, AND REASONABLE COSTS**

4 **Q. Mr. Sharbono begins his testimony with statements about the Commission's**
5 **objective to provide companies with fair, just, and sufficient revenues to cover the**
6 **expense of providing services while receiving the opportunity to earn a return on**
7 **investment¹⁰. Does Mr. Sharbono's testimony, if again accepted on its face, conform**
8 **to the reality of this stated objective?**

9
10 A. Actually no. In general terms, Mr. Sharbono stakes out positions that make it highly
11 unlikely that any Company operating under his assumed adjustments would have a
12 reasonable opportunity to earn the return on investment allowed by the Lurito-Gallagher
13 methodology used by the Commission to set a target operating ratio. Specifically, I will
14 address below concerns about those of Staff's proposals/conclusions which could appear
15 to substitute their judgment for the Company's prudent management discretion, their
16 definition of a recurring expense, and their definition of a normal operating expense.

17
18 **Q. Wouldn't you normally expect a Staff analyst to assess company expenses in**
19 **a test period?**

20 A. Yes, that is the standard process, but in certain instances in this case, we believe
21 Staff's analysis and recommended adjustments are more akin to overruling ordinary
22 discretionary decision-making exercised by prudent management. In my Opening
23 testimony, I concluded with a quotation from Leonard Goodman, a famed utility
24

¹⁰ Sharbono, Exh. BS-1CTr at 3:23-24.

1 economist that is quoted by both Mr. Sharbono and our own expert witness, Mr. Terzic.

2 To repeat that passage, Professor Goodman explains:

3 ...Under the just and reasonable standard, evidence of mismanagement may
4 trigger a reduction in allowable costs and profits for a regulated company. Not
5 every corporate expenditure is suspect under this standard. The directors [and
6 management] of the regulated company may employ their judgment within a
7 reasonable range of expenditures. An agency is 'not empowered to substitute its
8 judgment for that of the directors of the corporation; nor can it ignore items
9 charged by the utility as operating expenses unless there is an abuse of discretion
10 in that regard by the corporate officers.¹¹

11 The Commission has previously admonished that it will not engage in the day-to-day
12 management of regulated companies through its Orders and we would anticipate staff in
13 its capacity to adhere to that premise. In my testimony below, I will try to point out
14 where I find the Staff's quantitative judgments verging on the "qualitative" in rejecting
15 management choices that have not descended to an "abuse of discretion" level of
16 necessary expenditures.

17 **Q. Does Mr. Sharbono's definition of "recurring expense" align with fair, just, and**
18 **reasonable costs in your view?**

19 A. No. At page 5, line 3 of his testimony, Mr. Sharbono defines recurring as meaning that
20 "the same or similar expenses occur or would be recorded in any randomly selected
21 continuous 12-month period." Mr. Terzic also addresses this in his testimony. In the
22 pending case, the Company presents several matters of incurred costs during or around
23 the test period that are not expected to occur every twelve months that Mr. Sharbono has
24 challenged under this premise, including insurance deductibles, severance payments and
project expenses. Mr. Terzic spent the better part of four pages of his opening testimony

¹¹ Goodman, Leonard Saul, "The Process of Ratemaking," Pg. 839, Public Utilities Reporting, Inc. (1998).

1 devoted to this topic¹², despite the fact that he provides several examples of
2 “nonrecurring” costs allowed by the Commission and cites to Dr. Goodman. But although
3 as noted, Staff also cites Dr. Goodman frequently, on this point Staff was curiously silent
4 in responding to the Goodman reference by Mr. Terzic in supporting Terzic’s dispute on
5 this critical issue.

6 **Q. In his testimony, Mr. Sharbono also cites to and quotes portions of RCW 81.04.250**
7 **(2) as support for various adjustments reducing Olympic’s expenses, directly**
8 **affecting Olympic’s revenue requirement. Have you reviewed that testimony and**
9 **the cited section of the statute?**

10
11 A. Yes.

12 **Q. What are some of your thoughts in response?**

13 A. Well, first off I don’t find his selective quotations were applied in the proper context.

14 **Q. What do you mean by that?**

15 A. I question whether the passages he cites were appropriately or at least completely applied.

16 **Q. Why do you say that?**

17 A. Because RCW 81.04.250 has an entirely different subsection (3) that addresses the other
18 side of the coin, listing factors about establishing:

19
20 The carrier need for revenue of a level that under honest, efficient, and
21 economical management is sufficient to cover the cost, including all operating
22 expenses, depreciation accruals, rents, and taxes of every kind, of providing
23 adequate transportation service, plus an amount equal to the percentage of that
24 cost as is reasonably necessary for the provision, maintenance, and renewal of the
transportation facilities or equipment and a reasonable profit to the carrier. The
relation of carrier expenses to carrier revenues may be deemed the proper test of a
reasonable profit.

¹² See Exhibit BT-1T, Pages 8-12.

1 **Q. With that subsection above in mind, what are your objections to Mr. Sharbono's**
2 **testimony here?**

3 A. In my view, he has parsed the verbiage in subsection (2) to argue that its featured
4 language is justification for many of the Staff adjustments Olympic continues to
5 challenge to date in this case in his repeated emphasis of delivery of services "at the
6 lowest cost."

7 **Q. And what is the effect of that in your mind?**

8 A. It overlays and serves as a proxy for defenses of many of his more subjective
9 adjustments, particularly for employee activity expenses, food and safety event expenses.
10

11 **Q. Can you explain this effect more specifically?**

12 A. Yes. He cites to his featured selection from the passage in the statute no less than three
13 times, at pages 28, 29 and 33 of his testimony, so it's hard to dispute it is a fallback
14 rationale for his adjustments, particularly when he wants to generalize them or otherwise
15 paint them with a broad brush.
16

17 **Q. Do you have any other concerns about this analytical reliance by Mr. Sharbono?**

18 A. Yes, to me it promotes a flawed and incomplete interpretation of the provision on which
19 he bases and seeks to justify his adjustments. In his repeated reference to the "lowest
20 level of charges," he advocates a lowest common denominator perspective that seemingly
21 ignores any qualitative evaluation of "carrier costs" that RCW 81.04.250 (3) requires. It
22 also deflects the statutory obligation of the Commission to consider "sufficiency" of rates
23 for a carrier and omits the "reasonable profitability" factor which provides the necessary
24 equilibrium factor for regulated ratemaking. He also notably omits the qualifier

1 “reasonable” that is referenced in subsection 3 in any reference to the “lowest level of
2 charge.”

3 **Q. Why is the concept of “reasonableness” important?**

4 A. Because that is our point here. The majority of the remaining disputed adjustments
5 proposed by Staff are not “reasonable” in our view.

6 **Q. But what about the general interpretation of delivering services at the “lowest level
7 of charges?”**

8 A. While we endorse the objective, we do so with important qualifications and caveats in
9 addition to what we just alluded to above about reasonableness. We agree that managing
10 costs and efficiencies is vital to the operation of regulated businesses, particularly.
11 Lowering costs is always a desirable goal. Indeed, publicly-traded companies recognize
12 that lowering expenses is one important way to return value to shareholders. However,
13 we disagree with the premise suggested by Mr. Sharbono’s interpretation and application
14 of RCW 81.04.250 that management’s objective/goal is to always pursue the cheapest
15 operating costs.
16
17

18 **Q. Do you have any simple example that would illustrate this point?**

19 A. Yes, a basic hypothetical. For instance, purchasing a pair of shoes at \$50 may be
20 ultimately more expensive than a pair for \$150 if the latter one lasts for two years rather
21 than two months for the “bargain pair” that wears out almost from the start and needs
22 constant replacement. Thus, sometimes factors such as function, efficiency and durability
23 can trump initial cost and it is the responsibility of prudent management to make the
24 appropriate choice based on the circumstances presented.

1 **Q. And what in your view complicates these judgments by management by analysis**
2 **after the fact?**

3 A. The expenses we have requested in this rate case are largely based on management's
4 determination that they are expenses for necessary and normal activities at reasonable
5 cost. Management believes these expenses are necessary to provide the regulated activity
6 of solid waste collection and transportation. For instance, the Company historically
7 recoups in rates the cost of janitorial service and landscaping at its district operations
8 office and yard, as this is part of the owner's requirements to sufficiently maintain the
9 property supporting the regulated activity. The lowest cost possible for this maintenance
10 work may always not provide the quality of service required by management and the
11 Company to fulfill its overall service obligation to its customers and this Commission.
12 There are numerous types of expenses that rely on reasonable management discretion in
13 day-to-day operations. Regulatory review is of course expected, but absent a finding of
14 mismanagement, expenses should not be simply rejected after the fact either as
15 considered superfluous by staff or because there was a notion that the expense was not at
16 the lowest possible cost.

19 **Q. And what is the effect of these types of choices?**

20 A. Staff's perspective of the lowest possible level of charges has the tendency to view and
21 compartmentalize expenses as isolated entries on an income statement and not more
22 holistically as an element in determination of "fair, just, reasonable and sufficient rates."
23 Sometimes for instance, Olympic's management may implement safety measures that in
24 the short term may increase expenses and incrementally raise rates, but they do so using

1 their experienced judgment to mitigate future adverse consequences that can be
2 extremely consequential and costly, whether it is “simply” a piece of equipment or more
3 importantly, adding an additional employment position. In addition, as noted, some
4 initially higher expenses can ultimately be more efficient and ultimately less expensive
5 than the cheaper alternative.
6

7 V. INSURANCE

8 **Q. Do you concur with Mr. Sharbono’s threshold conclusion that the Company’s**
9 **insurance claim is not recurring or otherwise not normal?**

10 A. I do not. Mr. Terzic goes into a detailed rebuttal of the case in establishing that auto
11 liability claims—both premium and deductible components—are normal for this industry
12 and that claims can arise at any time. His testimony explores those components and why
13 they should be recoverable in rates. If Mr. Sharbono’s contravening position were to be
14 accepted in my view, the Company would ultimately not be afforded the fair, just, and
15 sufficient rates to allow the Company an opportunity to earn a fair and sufficient return
16 on its true costs to operate.
17

18 **Q. Do you have other concerns about Mr. Sharbono’s position?**

19 A. Yes, I have several concerns. One such concern is that he presents a flawed perspective
20 of deductible exposure related to his insurance analysis at Exhibit BS-4 and his testimony
21 at BS-1, Page 13, lines 14-16, where he states that: “Staff analysis found that using a
22 lower-deductible, higher premium insurance would provide more protection to ratepayers
23 if ratepayers are required to cover deductible costs.” In an isolated sense, he may be
24 correct. Low deductible insurance will protect the Company and the ratepayer from

1 volatility. But if the aggregate cost of this protection exceeds the anticipated cost of a
2 more volatile insurance package, I believe it is in the ratepayer's best interest to accept
3 the higher deductible policy.

4 **Q. In your view are the rate increases requested by the Company unreasonable?**

5 A. No. As noted earlier, the Company requests a 12.88% rate adjustment in its first general
6 rate filing in over a decade, including a normalization adjustment for the insurance claim
7 in question. Ratepayers are now being asked to pay an additional 1.2% for each year
8 since 2014, which is well under the cost of inflation. In this request, the Company has
9 included the cost of a large claim normalized over five years, which suggests to me that
10 the Company's policies regarding not only insurance, but also compensation practices
11 and other contested expenses are effective in containing cost increases to reasonable
12 levels over an extended period.

13
14 **Q. Are Mr. Sharbono's calculation scenarios and assumptions about a lower
15 deductible, higher premium insurance policy correct?**

16 A. Not in my opinion. Because the nature of the accidents is inherently volatile and erratic,
17 it is not possible to accurately predict expense in the next rate year. My concern with Mr.
18 Sharbono's analysis is that he chooses a best-case scenario when describing his low
19 deductible proposal and a worst-case scenario when describing the Company's high
20 deductible plan.

21
22 **Q. How is his low deductible plan not realistic?**

23 A. First, Mr. Sharbono assumes that premiums will remain constant when the truth is that
24 liability premiums, particularly those with low deductibles, are increasing in cost at a

1 very rapid pace. Ms. Lopes of Epic Insurance comments on the difficulty brokers have
2 in placing low deductible policies with large companies, as well as the rapidly inflating
3 cost of those policies.

4 Second, Mr. Sharbono supposes that the Company will pay deductible fees of [REDACTED] on
5 a [REDACTED] policy in a hypothetical year. That amount of total payout or less happened in
6 four of the eleven years of his analysis of Olympic Disposal. Furthermore, a [REDACTED]
7 deductible policy is a per-incident limit. It is possible the Company could have multiple
8 [REDACTED] or lower deductible charges in a single year that could push deductible charges
9 significantly over his optimistic [REDACTED] estimate.

10
11 Finally, Mr. Sharbono projects that the Company will have one or more extremely large
12 claims during the normalization period. While it is possible for this to happen, it is not a
13 given outcome considering the Company's substantial investment in safety culture and
14 safety equipment. With ever-climbing premiums against the Company's elevated safety
15 focus, Company management believes that both the ratepayers and the company are best
16 positioned to experience lower, albeit more volatile, rates utilizing the Company-
17 proposed insurance structure.

18
19 **Q. Do you have other evidence of the higher cost of the low deductible program?**

20 A. Yes. Mr. Sharbono ostensibly ignored the Company's comparative analysis at Exhibit
21 "JW-16c DR8-4 Insurance Review." That depicted how increasing insurance premium
22 expense to 2.3% of revenues wrought by Mr. Sharbono's stated preference for low
23 deductible insurance had a detrimental effect on eight affiliated Waste Connections
24 companies.

1 **Q. Why are the other eight affiliated Waste Connections relevant to this discussion?**

2 A. If the Commission rules in favor of Staff on this issue, it is very likely that these affiliates
3 and other large, regulated service providers in the state will experience upward rate
4 pressure in the millions of dollars over the next few years as managers seek out ratepayer
5 coverage for nearly 100% of their risk through high insurance premiums. It is ironic that
6 when a company transfers more of its risk to premiums, the ratepayers foot the bill,
7 which in my opinion is counterintuitive to the Commission's, Staff's and Company's
8 goal to provide service at the lowest *reasonable* cost.
9

10 **Q. At Page 14 of his testimony, Mr. Sharbono notes three concerns about the flow**
11 **through of high deductible insurance charges to ratepayers. Are these concerns**
12 **valid in your view?**

13 A. Generally no. His first two concerns revolve around the requirement that customers will
14 be required to pay future deductible charges and possibly multiple large claim costs.
15 That would be true, but only if the Company files for rates to recover those expenses, and
16 only if large deductible charges were incurred. While we cannot predict the future, we
17 can look back on the past. Companies affiliated with Waste Connections have operated
18 under Commission regulation since 1997 with virtually the same insurance cost model as
19 the current Olympic program. With 27 years of experience, only this single claim has
20 risen to the point of a suspended rate filing, and again, this claim originated in a rate
21 filing that currently asks ratepayers to pay an additional 12.8% after more than ten years
22 without a general rate increase. The track record of this model is positive overall and
23 unlikely to result in the large ratepayer expense Mr. Sharbono imagines.
24

1 Mr. Sharbono's third concern is that "the Company would have to file to reduce rates,
2 increasing the chances the costs will be over collected." The Commission can require a
3 company file at a specified time to mitigate this concern. The Commission regularly
4 employs this approach, and the Company has no objection to an order requiring that upon
5 conclusion of the normalization period.

6 **Q. Do you agree with Mr. Sharbono's comment at Page 15, lines 4-9 that zero**
7 **insurance is the logical conclusion of the Company's thinking?**

8 **A.** No, I absolutely do not. Insurance is a method of protecting the Company and ratepayers
9 from catastrophe. It is also required by the Commission for conducting all regulated
10 operations. Management's role is to find the correct balance of acceptable risk and cost.
11 Olympic Disposal, in cooperation with its affiliates, is able to absorb the cost of a ■
12 ■ claim over the interval it takes to arrange for recovery of the costs in revenue. In
13 a competitive market, recovery will come through strategic discretionary rate adjustments
14 over either a short or extended period of time. In a regulated market such as this one, we
15 must be able to remain solvent long enough to settle or adjudicate the adjustment and
16 support the extended recovery period involved in the ratemaking process. That ability or
17 willingness to tolerate risk is limited, however. There continues to be a point when
18 insurance is important for both the Company and the ratepayer. As reiterated at several
19 other points in my testimony, the increase to ratepayers because of this claim normalized
20 over five years is within a range that falls into a category of absorbable risk.
21
22
23
24

1 **Q. On page 16, Lines 4-14, Mr. Sharbono raises a concern about a domino effect of**
2 **cascading rate cases from multiple companies if the Olympic insurance expense**
3 **recovery were allowed. Do you agree?**

4 A. No, I don't. First, the actual precedent is that Olympic and its affiliates have been filing
5 general rate cases with similar insurance accounting for many years with no such effect.
6 Second, Mr. Sharbono's subjective conclusion is that claims of this nature are so rare that
7 they must be accounted for "below the line." At worst, we can envision isolated large
8 insurance settlements that require normalization occurring at increased frequencies as
9 overall claim costs rise. And yes, such cases may warrant a requirement that a company
10 return to the Commission after five years or after the applicable normalization period. It
11 is hard to imagine that this sort of requirement would materially burden conventional
12 Staff or Commission workloads as Staff apparently fears.

13 **Q. Mr. Sharbono acknowledges in his testimony that securing low deductible insurance**
14 **could be difficult and therefore proposes several normalization scenarios. Do you**
15 **offer an opinion on these scenarios?**

16 A. Yes. I believe it is most fair to normalize the Company's total insurance deductible
17 charges over a rolling five-year period unless the result of doing so is insignificantly
18 different than test year actual experience. This captures most outliers and is relatively
19 easy to implement and maintain. It is not appropriate to remove and discard "major
20 incidents," unless they fall into a unique category like the meteorite example provided in
21 Mr. Terzic's Rebuttal Testimony. Ten years, or almost half a generation, is simply too
22 long for a casualty incident to remain in customer rates.
23
24

1 **Q. On Page 8 of his testimony, Mr. Sharbono uses descriptions of the USOA chart of**
2 **accounts to justify his theory that insurance deductibles are below the line. Do you**
3 **consider this authoritative?**

4 A. No. I consider it illustrative, but not authoritative. Furthermore, I question his read of the
5 description of Account 4530-Public Liability and Property Damage. The description of
6 which account is as follows:

7 This account shall include premiums paid...for commercial insurance to protect
8 the carrier against liability to the public and damage to the property of others.
9 **This account shall also be charged with the estimated or actual liability for**
10 **claims not covered by commercial insurance for the same class of risk.¹³**
11 **Emphasis added).**

12 My understanding of the highlighted sentence is that the account is also designed to
13 accept deductible charges paid before insurance is triggered as well as liability expense
14 that may be occurred beyond the policy limit. The account description actually supports
15 the company position to keep the expense in this account and “above the line,” in direct
16 contradiction to Mr. Sharbono’s claim on Page 8, lines 10-14.

17 **Q. Does the Lurito-Gallagher model compensate shareholders for additional risk**
18 **transfer as Mr. Sharbono claims on Page 10 of his testimony?**

19 A. No. As Mr. Sharbono states, the underlying data set includes private sector companies’
20 market data to generate a market-based return. Most of the companies in the data set are
21 not rate regulated. Unregulated entities have some ability to incrementally increase rates
22 for periods of time to recover the normalized costs of expenses like large liability claims.

23
24

¹³ Uniform System of Accounts for Class A and B Solid Waste Collection Companies Operating Under Certificates
of Public Convenience and Necessity in the State of Washington, prescribed By the Washington Utilities and
Transportation Commission, Revised January 1992, Page 60.

1 There is some elasticity in competitive pricing that is not afforded a company regulated
2 by the Commission. The Commission has an obligation to include reasonable business
3 costs in the operating ratio model rather than excluding large or inconvenient expenses.

4 **Q. Mr. Sharbono accuses the Company of running a self-insurance program without**
5 **authorization. Do you concur with the characterization?**

6 **A.** No, I do not. Mr. Sharbono himself acknowledges on Page 12, line 17 that Olympic has
7 an insurance policy on file with the Commission. I explained earlier in my testimony that
8 the Company has used management discretion in conjunction with its insurer to select
9 deductibles that the Company can navigate financially without catastrophic
10 consequences. Furthermore, on page 2 of Exhibit JW-9C SDR-Insurance Program of my
11 Original Testimony, I explained how the Company works with ESIS, a subsidiary of the
12 Company's primary insurer, Chubb, to manage the claims below the [REDACTED]
13 deductible. The Company maintains that it properly filed Form E to provide its evidence
14 of insurance. The filing of a Form G regarding self-insurance would be inaccurate,
15 confusing, and inappropriate.

16
17
18 **Q. Do you find other inconsistencies in Staff's discussion on insurance.**

19 **A.** Yes. Mr. Sharbono accepts the concept of deductible charges if they are small enough¹⁴,
20 but then decides to deny 100% of large claims. Further, Staff removes *all* deductible
21 charges—even those not related to the major incident.¹⁵ In virtually all general rate
22 filings by affiliated Waste Connections companies since 1998, Staff has allowed
23
24

¹⁴ Sharbono, Exh. BS-1CTr at 7:15-18.

¹⁵ Sharbono, Exh. BS-1CTr at 7:13.

1 deductible charges in rates. To suddenly disallow every penny is arbitrary and
2 unreasonable.

3 See Exhibit 230778-JW 27 Staff DR18 Response.¹⁶

4 If Staff is to begin the process of evaluating insurance claims, Staff should have a process
5 to determine a threshold for a reasonable deductible and allow up to the reasonable
6 amount. Mr. Sharbono does not put forward any such analysis or criteria when making
7 his judgment on what constitutes a large accident claim. On at least one occasion, he
8 refers to \$100,000 as a large claim¹⁷. Perhaps he does not offer a process because it is
9 inherently complicated and subjective. Again, in the end, we believe setting a deductible
10 level is a decision that is better evaluated by a company's leaders, insurers and financial
11 consultants.
12

13 VI. SEVERANCE

14 **Q. Please discuss your interpretation of Staff's perspective of the purpose of severance**
15 **payments.**

16 **A.** On page 20, lines 5-7, Mr. Sharbono advances his opinion that severance payments are
17 most likely management's attempt to force ratepayers to cover the costs of cutting off a
18 company's liability for tort claims. His presumption ostensibly here (and in the lines that
19 precede it) is that the Company is guilty of mismanagement. He suggests that allowing
20 severance expense in effect requires Staff to investigate the factual basis for paying
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¹⁶ The Company asked Staff to supply criteria, table, metrics or other supporting data to define what constitutes an "unusually large event." Staff responded that it reviews each event in a historical context to determine if the expense differs from the normal transactional records. In essence, the Staff has no policy.

¹⁷ Sharbono, Exh. BS-1CTr at 18:3.

1 severance and rejects the Company's defense of the infrequent payments as ultimately a
2 cost-benefit analysis and a cost-savings finality measure in the current employment
3 world. Staff's theory for severance as a supposed preclusion of meritorious business tort
4 claims, even if true, would not be the only reason for paying severance on separation of
5 employment. In my own experience for instance, severance can also be used to expedite
6 an appropriate change in leadership. It can take an extended period of time to manage an
7 ineffective leader out of an organization through the usual means of counseling and
8 performance metrics review, particularly if that leader serves in a remote location.
9 Gathering sufficient documentation to avoid litigation can be nearly impossible when site
10 managers are also at the core of the investigation. Severance can be used cost-effectively
11 and expeditiously to work with the affected employee and make the administrative
12 change quickly, thereby allowing the location to put in place the leaders it needs much
13 faster than a protracted alternative. Timely leadership changes make for more efficient
14 operations at an accelerated pace that can certainly provide value to the ratepayer.
15

16
17 **Q. Is there actual evidence of improvement at Olympic resulting from the leadership**
18 **change there?**

19 **A.** Yes. In the case of Olympic, employee turnover statistics have improved dramatically
20 since the leadership change that came forth from the severance payment at issue in this
21 case. Exhibit 230778-JW 28 Olympic EE Turnover 22-24 shows that the rolling 12-
22 month voluntary employee turnover rate fell from [REDACTED] in November 2022 to [REDACTED]
23 in May 2024.
24

Q. What is the cost-benefit of the severance payments in this case?

1 A. Anecdotal evidence suggests that the cost to replace an employee, inclusive of the hiring
2 process, training, and the learning curve is along the lines of 23.5% of a worker's annual
3 wage.¹⁸ Clearly, it should not take much improvement in the turnover rate to justify a
4 strategically placed severance arrangement. In Olympic's case, the investment was
5 modest and the returns on the investment were demonstrated during the test year as
6 voluntary turnover was at a 12-month rolling rate of [REDACTED] at the conclusion of the test
7 year even in the height of the post-pandemic national hiring frenzy.
8

9 **Q. Does the Company advocate that Staff should review severance payments on a case-**
10 **by-case basis?**

11 A. No, I do not. Modest severance payments occurring over infrequent periods—less
12 frequently than every twelve months—can be a sign of effective management making
13 changes when necessary. Larger severance payments may justify a case for multi-year
14 normalization. If severance payments become routine in most general filings or if they
15 are large, as in multiples of an employee's salary, it would behoove Staff to look deeper
16 into the circumstances.
17

18 **Q. Should Staff review each severance case for propriety?**

19 A. No. In my view, because severance arrangements can involve a number of subjective
20 variables, it is unnecessary for Staff to plumb the depths of occasional and modest
21 severance payments. It is fair to ask about the procedures undertaken prior to paying
22 severance. At Olympic and its affiliates, employment counsel and human resource
23 specialists are always engaged as Mr. Gingrich described in his Opening Testimony, and
24

¹⁸ Per a Google Search referencing a report from Equitable Growth.com. Search results varied from a low of 19% to a high of 200% of annual wages.

1 senior region or corporate officers have significant say in the final decisions around
2 severance, weighing what is in the best economic interest of the Company's operations.

3 **Q. By this process, is the company shifting all its risk from shareholders to ratepayers**
4 **as Mr. Sharbono contends at Page 21 of his Revised Response Testimony?**

5 A. No. We disagree with the rather jaundiced view of what is expected of ratepayers and
6 shareholders. Ratepayers should be expected to pay reasonable costs of operating the
7 business, including normalized costs for some expenses that occur in intervals less
8 frequently than every 12 months as well as an additional increment to compensate
9 shareholders for the use of their capital to finance the Company operations. Indeed,
10 even Mr. Sharbono admitted that a "recurring test-year cost **should generally** recur in the
11 rate year" (emphasis added) in his response to Company Data Request No. 23¹⁹.
12 Shareholders should expect an opportunity to earn a return on their investment in the
13 company, and to also bear the risk that events will not come out as anticipated. In my
14 opinion, it is inappropriate to solely burden shareholders by removing the costs of
15 reasonable and prudent expenditures such as severance payments (or insurance
16 deductibles) and assume they can earn a reasonable return under the Commission's
17 Lurito-Gallagher ratemaking model.

21 VII. INCENTIVE PLANS

22 **Q. What types of incentive programs do you believe have caused the most concern for**
23 **regulators in the past?**

24

¹⁹ Exhibit 230778-JW 30 DR 23 Staff Response

1 A. Mr. Sharbono states that the Commission has indicated that allowable bonus and
2 incentive pay programs require demonstrable evidence that customers benefit from the
3 expenses (Page 23, ll., 2-3). Based upon my understanding, the preponderance of
4 Commission focus in this regard has been on executive and managerial bonuses. I
5 understand that because these kinds of incentive plans can involve relatively large sums
6 paid to individuals, and that because an executive can direct the plans for personal gain,
7 there is reason for the Commission to exercise caution around the area of executive
8 bonuses.
9

10 **Q. Are executive bonus or incentive plans at issue in this case?**

11 A. They are not. The incentive programs in this case are all about payments to regular (line)
12 employees who are generally paid hourly. Company managers do not receive these
13 payments, and therefore they have no personal incentive to distort the plans or manipulate
14 them for their own personal gain. These plans are intended to increase employee
15 productivity and satisfaction, both of which are consistent and in alignment with
16 ratepayer interests.
17

18 **Q. Please summarize the original testimony you or Mr. Gingrich provided in this**
19 **regard.**

20 A. Mr. Gingrich offered significant amounts of time to the coaching and engagement
21 benefits of the plans. Mr. Sharbono notes his apparent rejection of this explanation in his
22 comments on Page 24, lines 1-10, among other locations. Despite Staff's
23 characterization here, the Company in fact did offer evidentiary examples of the
24 experience at Peninsula Sanitation, a small, regulated company located on the Long

1 Beach Peninsula and of Waste Control, a much larger operation based in Longview.

2 Both were recently acquired by Waste Connections. Programs similar to those employed
3 by Olympic were initiated at the two companies after acquisition. Exhibit JW-22C shows
4 “before” and “after” measures of bad debt, 12-month incident rates, employee turnover,
5 and Days Sales Outstanding (DS) at these facilities. Each statistic is a key performance
6 metric that points to an operation’s ability to control costs. With each statistic, the
7 companies are now in a markedly better position than at the time the company was
8 acquired. In a footnote to his testimony, however, Mr. Sharbono discounts this evidence
9 as inapplicable because they are separate operating entities, and that the Company offered
10 no evidence of what is true of these companies is also true of any of the others.
11

12 The Company offered references to several publications that spoke to the prevalence of
13 incentive programs and favorably of the productivity gained through them. Mr. Sharbono
14 again dismissed them because they were anecdotal in his view and not specifically tied to
15 Olympic Disposal customers.
16

17 **Q. Mr. Sharbono’s primary concern here is that the Company did not demonstrate**
18 **that these programs benefit the ratepayer. Could you have made the connection**
19 **that Mr. Sharbono desires?**

20 A. Aside from potentially positing a false choice, I believe that Mr. Sharbono is asking for
21 the unattainable here, and in so doing, overlooks a significant body of evidence that
22 supports these programs, albeit through analogy.
23

24 **Q. What obstacles did you and would you face in meeting his criteria?**

1 A. We encountered several obstacles. First, a robust demonstration generally requires a
2 “before” and “after” analysis. In an ideal world, the Company could provide a picture of
3 Olympic Disposal before it had incentive programs under prior ownership in contrast to
4 how the Company stands after the programs were initiated. Second, a robust
5 demonstration generally requires a controlled test environment that removes or otherwise
6 adjusts for other variables that could interfere with the study results. Third, a robust
7 demonstration requires a large enough sample size to provide statistically valid results.
8 Olympic Disposal confronts obstacles to each of these criteria if we were to use Olympic
9 specific data. We cannot reasonably show a “before condition” because Olympic has
10 employed versions of these incentive programs for many years. There is no clear point in
11 time to input the data before the existence of programs, and it would be virtually
12 impossible to filter out a clear picture of the district as it existed at that time. Solid waste
13 companies obviously have many variables at play. Leaders and employees turn over,
14 equipment is replaced, contracts change, territory expands and contracts, and weather
15 goes through cycles over time. All these factors can affect employee productivity even
16 though a well-managed incentive program prevails through these changes, softening the
17 adverse productivity change that might have occurred without incentives.
18
19

20 **Q. What about the other factors?**

21 A. These variables just noted also speak to the second obstacle. With all these moving parts
22 at play, it is virtually impossible to run an efficient collection operation and
23 simultaneously document the impact of incentive programs on productivity exclusive of
24 the other factors.

1 Regarding the third obstacle, as a company that employs a total of approximately 28 full
2 time equivalent drivers plus limited support staff, Olympic Disposal does not have
3 enough employees to draw a statistically valid sample for any robust demonstration.

4 **Q. How do you propose to prove your assertions about incentive programs?**

5 A. I question Mr. Sharbono's assumption that an experience observed external to Olympic
6 Disposal must be discounted out of hand. In rebuttal to Staff's broad disqualification of
7 these programs announced specifically for the first time in its Testimony, the Company
8 asked Dr. Peter Scontrino, an industrial and organizational psychologist, to closely
9 review Olympic's incentive plans under review in this case and form an opinion as to the
10 value of our plans and their impacts on affected employees. His Rebuttal Testimony,
11 supported by controlled data of valid sample sizes, demonstrates that these plans are in
12 fact effective and should not be dismissed despite the difficulties of testing their efficacy
13 on Olympic itself.

14 **Q. Mr. Sharbono also challenges the continuity of the implementation of the incentive
15 programs and a management discretionary clause in the plans at Page 25. Do these
16 concerns have merit in your opinion?**

17 A. No they do not. Mr. Sharbono has been an analyst with the Commission for more than
18 seven years according to his testimony. In addition to Olympic, he has audited several
19 rate filings of affiliated companies. The programs at hand are widespread and consistent
20 within the group of affiliated companies. While management always reserves the right to
21 discontinue programs that do not achieve the desired effect of engaging employees and
22 improving the related metrics, that is not done so in any way to effectively "game the
23
24

1 system.” While the programs might change over time, the dollars spent are relatively
2 consistent. Payouts change from year to year. Because of this, the Company offered to
3 use a five year or similar average in ratemaking to allow for that ebb and flow.

4 **Q. Why is the Company so insistent that it retain these programs as opposed to the**
5 **easier path of eliminating them and incorporating the pay into regular wages as Mr.**
6 **Sharbono prefers?**²⁰

7 **A.** Again, Mr. Sharbono appears to discount several pages of Mr. Gingrich’s testimony
8 about the coaching and engagement benefits of the incentive programs. The Company is
9 intentional about paying competitive wages on the low side of the pay scale with the
10 opportunity to earn wages into the high end of the pay range. We do this because we
11 believe this approach attracts a better than average workforce. Dr. Scontrino also
12 supports our hypothesis with peer reviewed documentation of plans like ours.

13 **Q. Is the exploitation of favoritism the likely outcome of the Culture Bonus?**²¹

14 **A.** The concern that managers will exercise favoritism in the administration of the culture
15 program is not only imagined, but antithetical to the concept of the Culture Bonus. The
16 only factor involving management review is that an employee who desires to earn this
17 type of bonus inform the manager of their intent to pursue that factor in advance. As one
18 reads through the Culture Bonus Plan²², there is a list of more than 20 virtually pre-
19 approved activities an employee can undertake to learn more about other departments of
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²⁰ Sharbono, Exh. BS-1CTr at 26;4.

²¹ Sharbono, Exh. BS-1CTr at 26:11-13.

²² Exhibit JW-18C, Safety Culture Program.

1 the company, to share knowledge, and to engage with customers and the outside
2 community.

3 **Q. Do you see any concern with a requirement that a candidate for the Culture Bonus**
4 **notify a manager of an intention to engage in a specified or self-designed culture**
5 **activity?**

6 **A.** No. Certainly, managers need to be aware of an employee's attempt to participate in an
7 activity so that job coverage or other accommodations can be made to ensure that the
8 activity is done at the right time for the right reasons. This hardly suggests manipulation
9 or favoritism by a supervisor who is simply asking to be informed ahead of time as to the
10 goal(s) the employee intends to pursue. For these reasons, and because there is an
11 opportunity for employees to suggest their own culture-enhancing activity, the Company
12 simply requires that activities be pre-planned and approved.

13 **Q. What about concerns that payouts might decline²³, allowing the Company to collect**
14 **money for these bonuses in rates without paying them?**

15 **A.** While the payments for these bonuses are significant, they are hardly of the scale
16 that the Company would enlarge them in a test year only to reap benefits after
17 embedding them in rates. Our goal with Culture Bonuses and other incentive pay
18 for line workers is to pay above average wages for above average work, and these
19 programs allow us to maintain that standard more efficiently. To assuage
20 concerns raised by Staff, the Company offered to average payouts over a
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²³ Sharbono, Exh. BS-1CTr at 27:2-5.

1 reasonable lookback period so that test year bonuses can never be considered
2 “inflated.”

3 **Q. Can you summarize your comments on incentive plans?**

4 A. Yes. While I can understand Mr. Sharbono’s concerns about the risks of executive
5 bonuses, incentive plans for hourly employees are an entirely different matter. Mr.
6 Gingrich spoke to the value that management places on these programs to provide
7 employees clear and timely feedback—both positive and negative. Dr. Scontrino also
8 explains the advantages of these programs and how the programs offered at Olympic
9 Disposal are designed in ways that are supported as helpful to productivity in
10 documented literature. Clearly, Staff’s subjective judgment is that these are unnecessary
11 and should instead be covered in salary adjustments which also makes their costs
12 permanent and likely then more expensive to ratepayers. Reasonable pay structuring that
13 includes modest incentive variables for hourly employees to improve productivity does
14 not seem an untoward area of responsibility to leave to management nor to expect
15 customers not to contribute to in the ordinary course of operations.
16
17

18 **VIII. SAFETY EVENT**

19 **Q. In response to Mr. Sharbono’s assertion that the Company must provide service**
20 **with or without a safety event,²⁴ please explain how the safety event (rodeo) meets**
21 **the Company’s requirement to provide ratepayers with adequate and safe service?**
22

23 A. Olympic must provide the tools and training necessary to perform adequate and safe
24 service. For its part, the Company chooses to invest in a pervasive safety culture to

²⁴ Sharbono, Exh. BS-1CTr at 33:9-11.

1 reduce injuries to employees, customers and community members. The featured safety
2 rodeos are again tools in the Company's arsenal that help us to keep safety front and
3 center and a source of constant positive discourse. The safety event charge in dispute
4 here is [REDACTED] plus associated travel and food expenses that are stricken elsewhere in Mr.
5 Sharbono's testimony. The portion attributed to the regulated area is even smaller—
6 about [REDACTED]. Elsewhere in testimony, Mr. Sharbono denies insurance expenses
7 of as much as [REDACTED] per year.²⁵ Relative to the cost of insurance liability and the
8 priceless cost to those who become injured, the safety rodeo is a relatively inexpensive
9 tool to mitigate those types of costs in the future. If even just one or two "fender-bender"
10 incidents can be avoided because of inspiration and observation from safety events, that
11 investment is worthwhile.
12

13 IX. MEALS AND COMMUNITY EVENTS

14 **Q. Mr. Sharbono has one primary concern about company paid meals: day trip meals,**
15 **training meals, coaching meals, and celebration meals are not necessary to provide**
16 **service. Do you agree?**
17

18 **A.** I do not. Times have changed in the workplace since I began working in the solid waste
19 industry in 1990. Meals and food have always been present, but employee expectations
20 have changed over time. Providing meals at day-long meetings obviously enhances
21 efficiencies by not having to break for takeout or restaurant time or for employees to
22 prepare and store meals in advance. Modern front-line employees are motivated in a
23
24

²⁵ Sharbono, Exh. BS-1CTr at 19:table.

1 variety of ways aside from mere compensation, and employers in a competitive and
2 particularly low unemployment environment, need to attract and retain employees in
3 various ways, including enhancing the workplace environment. In addition to Mr.
4 Gingrich's lengthy commentary on the benefits of the various kinds of meal costs,
5 occasional meals as a provision for employees juggling complicated lives is appropriate
6 and becoming a routine part of employee benefits in 2024 and again, considerably less
7 expensive than embedding increased compensation in base wages.
8

9 **Q. What about the Employee and Community Activities Account?**

10
11 A. As with meals, the most productive employees in a competitive environment expect more
12 from their employers. These types of expenses addressed in both Mr. Gingrich and my
13 Opening Testimony are similarly (as with meal provision) conducive to employee morale
14 and retention. Mr. Sharbono's testimony also did not acknowledge the Company's
15 proposal to include only 50% of the costs in this account. We suggest the 50% level is a
16 fair way to balance the cost of these activities between shareholders and ratepayers who
17 are both benefitted by workforce stability.
18

19 **X. STRANDED ASSET**

20 **Q. How does the ratepayer benefit from the transfer station project that was**
21 **terminated during the test year?**
22

23 A. Mr. Sharbono initially allowed amortization of the costs of this project in the October 16
24 Staff workbook that the Company used as the basis for Original Testimony. Introduction
of this objection is therefore new, as is his testimony on excluding this project. Mr.

1 Sharbono is correct in his understanding that the Company incurred expenses to
2 investigate the construction of a transfer facility on property located within the footprint
3 of our current Olympic collection operation. The transfer station would have ultimately
4 provided service to regulated customers at what we believe would have been lower
5 tipping fees than those charged through the current arrangement that utilized the transfer
6 station operated by the City of Port Angeles. Ultimately community, environmental, and
7 cost concerns were significant enough that we were forced to cancel the project, and
8 generally accepted accounting principles required us to recognize the project as a loss.
9 Because the ratepayers were a stakeholder with a potential benefit of the upside of the
10 project, the Company believes they should share in the downside risk of cancellation. We
11 also hope that we might be able to resuscitate the project in the future when almost all the
12 sunk costs in planning and construction would not be superfluous or need to be
13 replicated.
14

15 XI. FUEL ADJUSTMENT

16
17 **Q. The Company converted from a fixed price fuel agreement to market-price**
18 **agreement in January 2024. The rule requires that fuel be set on the last twelve**
19 **months of fuel expense as close as practicable to the time new rates go into effect**
20 **pursuant to WAC 480-70-346. How does the fuel lock affect the fuel adjustment**
21 **calculation?**

22
23 **A.** If interpreted literally, the rule suggests that locked prices should be brought into the
24 rolling twelve month calculation, even when the locked price has no connection with
current price trends. Depending upon when the new rates go into effect, this fuel pricing

1 could be 18 months or more out of date. The Company believes that when it exits a
2 period of locked fuel prices, there is good cause to adjust the rolling twelve month
3 calculation to reflect market pricing during the fuel lock months. Doing so restores the
4 intent of the 12-month rolling average rule for ratemaking.

5
6 In a hypothetical example, assume Olympic's locked price of [REDACTED] per gallon expired on
7 12/31/23. Also assume the average market price of fuel during the last half of 2023 was
8 [REDACTED]. If new rates are set to begin on July 1, 2024, the Company believes that the
9 market price of [REDACTED] should be used in the rolling calculation for the latter half of 2023.
10 Conversely, if the Company enters into a contract fuel price agreement while rates are
11 becoming established, the new fixed price should be used.
12

13 **Q. Why do you think this approach is a best practice?**

14
15 A. The WAC requiring updated fuel pricing was not promulgated with reference to fuel
16 locks/contract pricing which became more prevalent during recent years to bring stability
17 in the face of volatile fuel costs. I understand that the WAC was written to avoid
18 confusion and to set a standard approach that helps us all develop a reasonable future
19 estimate of the price of notoriously volatile fuel. It is important, however, not to let the
20 process interfere with logic and accuracy when both parties know there is more current or
21 relevant information available. The optimal practice is to follow the WAC guidance in
22 the majority of instances, but to supersede outdated pricing with more current pricing
23 from the expired fixed fuel price agreements for the months affected by a contract price
24 agreement.

1 **Q. How does this point affect the pending rate case?**

2 A. Our understanding is that fuel expense will be adjusted as a part of the settlement or
3 adjudication process. I estimated that a portion of the rolling twelve months associated
4 with this docket will reach back into months in which the former fuel price agreement
5 was in place. I therefore request that market price be used in place of contracted price for
6 those months when the final fuel calculation is made.
7

8 **XII. LATE-FILED RESPONSE TESTIMONY LEGAL FEE DISALLOWANCE**
9

10 **Q. Have you read the late-filed testimony of Mr. Sharbono where he now amends his**
11 **previously filed testimony to recommend denial of various attorney fees?**

12 A. Yes. I have.

13 **Q. In that testimony he advocates disallowance of [REDACTED] of legal fees for planning and**
14 **advice on the transfer station that was ultimately not built. Do you accept that**
15 **adjustment?**
16

17 A. I do not. These legal fees are related to the stranded asset discussed in Section X. The
18 work that was done and the advice that was offered will clearly be relevant and of benefit
19 if we ever restart the project.

20 **Q. What about the [REDACTED] for the “mills haul case?”**
21

22 A. We strongly oppose this reduction. This was a formal complaint case defending
23 Olympic’s regulated certificate territory against encroachment by a competitor claiming
24 state regulation of this industrial solid waste collection service was preempted and
spanned almost three years. This involved a complaint brought by Olympic at the

1 Commission on which it prevailed and appeals by the respondent at the Thurston County
2 Superior Court, The Washington Court of Appeals and the Surface Transportation Board
3 in Washington, D.C. Olympic ultimately prevailed in all four forums in defending the
4 Commission and Olympic's positions and those costs to defend again spanned multiple
5 years.

6 **Q. Do you agree that only test year costs should be allowed?**

7
8 A. Absolutely not. Certificate legal defense costs do not operate on test year bases just like
9 rate case legal expenses do not. Mr. Sharbono's after-the-fact claw back of legal fees that
10 did not fall within a neat test year is arbitrary and without precedent in our experience.

11 **Q. Are you aware of legal expenses for defense of certificate being allowed previously?**

12 A. Yes. Historically I have never seen that challenged and am aware of a recent general rate
13 case in 2023, in re TG-230187 and TG-230189, Basin Disposal, Inc., Ed's Disposal, Inc.
14 (May 2020), where such legal expenses for defense of certificate were allowed by formal
15 Order of the Commission.

16
17 **Q. Do you have an objection to amortizing legal fees over a reasonable period to recoup
18 these defense of certificate fees?**

19 A. No.

20 **Q. Finally, what is your response to the auditor's defense of this late adjustment
21 proposal on the basis that he could not find authorization to defer these costs into a
22 future rate case, either through "surcharge or general rates?"**

23
24 A. I find that surprising since we had no rate case pending at the time those fees were
incurred nor are we aware of any rule, existing provision or mechanism that would seek

1 recovery of legal fees in a prospective rate base. If the Commission, through the Final
2 Order in this matter, directs us to file for advance approval in the future say, through an
3 accounting petition, we are more than willing to comply, but this is the first time that has
4 ever been suggested to us despite our discussions with staff about the certificate defense
5 case--for instance, around the time this general rate case was filed.

6 **Q. Does staff's apparent late-filed position change on this cause you any other**
7 **concerns?**

8
9 A. Yes, as you would expect, we are incurring material legal and consulting fees in real-
10 time, prospectively in this case, and considering staff's reliance on the "known and
11 measurable" doctrine, we are at a loss as to how to quantify them and ask for certain
12 expenses to be recovered upon review. Since we have not had an adjudicated rate case
13 before at the WUTC, we would hope to submit the final total for review and approval of
14 those fees in any compliance filing, or in any other mechanism that the Commission so
15 directs.

16
17 **XIII. PENDING RATE CASE COSTS**

18 **Q. Please recap the estimated costs of defending this pending rate case from your**
19 **Opening Testimony.**

20 A. On page 34 of my Original Testimony, I estimated total rate case defense costs of
21 [REDACTED], normalized over 3 years, to arrive at increased costs of [REDACTED] per year.

22 **Q. Is this estimate still reasonable?**

23 A. The Company has engaged a variety of professionals to provide guidance and technical
24 assistance related to this case. Expert witnesses were retained by Williams Kastner, and
the Company separately engaged Pacific Financial Consulting Services to research

1 Opening Testimony and related exhibits. As of May 31, 2024, the Company has incurred
2 total professional fees of approximately [REDACTED]. Fees for June 2024 are estimated at
3 [REDACTED]. After provision for any settlement session, interim rate defense, hearing
4 preparation, hearing, and post-hearing briefing, we now estimate professional fees to be
5 [REDACTED] or slightly higher. Because the Company anticipates this expense to be
6 narrowed at the time of the Final Order in this rate case, we have not updated the Lurito-
7 Gallagher model for the additional [REDACTED] in costs. Normalized over three years,
8 [REDACTED] would add [REDACTED] of costs per year. The Company asks that the final total of
9 these expenses be approved in any Final Order in this case.
10

11
12 **XIV. CONCLUSION**

13 **Q. Does this complete your testimony?**

14 **A. Yes it does.**
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