Agenda Date: December 27, 2013
Item Number: B1

Docket: **TG-130938**
Company Name: Waste Management of Washington, Inc., G-237
dba Waste Management - Northwest

Staff: Kathryn Breda, Regulatory Analyst
John Cupp, Consumer Protection Staff

Recommendation

1. Dismiss the Complaint and Order suspending the tariff revisions filed on May 24, 2013, by Waste Management of Washington, Inc., dba Waste Management – Northwest.

2. Allow the revised tariff revisions as filed by the company on December 23, 2013, to become effective January 1, 2014.

Discussion

On May 24, 2013, Waste Management of Washington, Inc., dba Waste Management – Northwest (WMNW or company) filed tariff revisions with the Washington Utilities and Transportation Commission (commission) that combine the tariffs of two operating units, WMNW Tariff 17 and Waste Management – Sno-King (WMSK) Tariff 15. This filing would generate approximately $5,150,000 (8.9 percent) additional annual revenue.

WMNW provides regulated service to approximately 111,000 residential and commercial customers in King and Snohomish counties. The company's last general rate increases for WMNW and WMSK became effective March 2009 and June 2010, respectively. On July 10, 2013, and August 13, 2013, WMNW filed to extend the effective date to September 1, 2013, and October 1, 2013, respectively. On September 26, 2013, the commission entered a Complaint and Order suspending the tariff revisions filed by the company on May 24, 2013.

The requested rate increase is primarily due to a large investment related to consolidating two operating units with new operations and new facilities in Marysville and Woodinville, and adding new compressed natural gas (CNG) fueling infrastructure and trucks.

Prior to 2012, the company conducted WMNW and WMSK operations from three facilities located in Kirkland, Bothell, and Woodinville (only recycling and yard waste). The company's lease on the Kirkland facility expired at the end of 2011 and the company needed to relocate the Kirkland-based operations. The company expanded its Woodinville facility, moved its Kirkland and Bothell solid waste collection operations to the Woodinville facility, and moved a portion of the Bothell operations to a new leased facility in Marysville. The company recently sold the Bothell site, and the proceeds of that sale are reflected in staff's analysis, the revised revenue requirement, and the revised rates.

Staff evaluated the prudence of this investment decision to consolidate operations in Woodinville. Staff concludes that the decision was reasonable, due mainly to the fact that the company already owned the property in Woodinville, and there are inherent efficiencies when operations are consolidated. Staff also reviewed the sizeable cost overruns related to the consolidation, as compared to initial project estimates. Staff concludes that the company responded reasonably to the conditions it was facing. Staff notes that the project management firm retained by the company sought and received competitive bids for the major elements of the consolidation project. However, staff expects that in the future, the company will also consider reasonable alternative sites (including sites not owned by the company) before making a decision to relocate, consolidate, or invest in significant property development for any other reason. Due to the unusual and extraordinary nature and amounts of the investment in this case, staff made an exception from historic rate base treatment for test period investment related to the combined operations and treats the investment on an end-of-period basis.

With regard to the CNG investment, this case includes new CNG fueling infrastructure and new CNG-fueled trucks. The company is in the process of replacing its diesel fleet with CNG vehicles, pursuant to the company's corporate policy nationwide to transition to CNG vehicles.

Staff requested WMNW to demonstrate the cost-effectiveness of the decision to add the CNG fueling infrastructure and CNG trucks, but the company did not provide such a demonstration. However, the company was able to provide information regarding the economic and environmental benefits of CNG vehicles. Although the purchase cost of a CNG truck is greater than a diesel truck, CNG trucks provide a fifty percent reduction in fuel costs, a ten percent decrease in maintenance costs, a significant reduction in labor due to reduced fueling time, and they have longer lives. Environmental benefits include a fifteen percent reduction in carbon footprint and a reduction in noise pollution because CNG trucks are fifty percent quieter than diesel trucks. Increasingly, governmental entities are imposing stricter emission standards, and the trend nationally is towards the use of CNG solid waste vehicles.

Based upon these considerations, staff believes the company's CNG investment decision is reasonable. At the same time, it would also be reasonable for a solid waste company to continue using diesel vehicles, where lawful and cost effective.

Staff has completed its review of the company's supporting financial documents, books and records. Staff's review found that WMNW's proposed rates would result in excess revenue. WMNW and staff have agreed to several substantial adjustments to the revenue requirement from the company's original filing. The adjustments include an exception from historic rate base treatment for test period investment related to the combined operations that reflects the investment on an end-of-period basis; a revised calculation of costs allocated from the company's Cascade Recycling Center; consideration of the proceeds from the sale of the Bothell facility; reductions in corporate and other allocated costs from other units of the company; removal of investment not used in regulated business; direct assignment of revenue and expenses where possible; adjustments to the allocations of expenses between regulated operations and contracted cities; and other changes. Staff expects to continue to address many of these issues in the future.

On December 23, 2013, the company filed revised tariff pages reflecting a revised revenue requirement of approximately $1,821,000 (3.2 percent) additional annual revenue.

Rate Comparison

	Current Rate	Proposed Rate	Percentage Increase	Current Rate	Proposed Rate	Percentage Increase
Residential Monthly Rates	King County			Snohomish County		
20 Gallon Cart	$ 12.50	$ 9.72	-22.23%	$ 9.45	$ 9.54	0.95%
32 Gallon Can	$ 13.20	$ 14.06	6.50%	$ 13.75	$ 13.75	0.00%
35 Gallon Cart	$ 14.50	$ 15.11	4.19%	$ 14.80	$ 14.80	0.00%
64 Gallon Cart	$ 22.10	$ 23.98	8.49%	$ 23.55	$ 23.55	0.00%
96 Gallon Cart	$ 29.70	$ 32.52	9.48%	$ 31.90	$ 31.90	0.00%
Recycling Service	$ 8.33	$ 9.12	9.48%	$ 8.65	$ 9.12	5.43%
96 Gallon Yard Waste	$ 8.23	$ 10.40	26.37%	$ 9.55	$ 10.40	8.90%
Commercial Monthly Rates	King County			Snohomish County		
1.0 Yard Container	$ 95.77	$ 95.77	0.00%	$ 71.93	$ 72.54	0.84%
2.0 Yard Container	$ 157.73	$ 157.73	0.00%	$ 123.93	$ 124.97	0.84%
4.0 Yard Container	$ 256.97	$ 256.97	0.00%	$ 196.30	$ 197.95	0.84%
6.0 Yard Container	$ 332.80	$ 332.80	0.00%	$ 270.40	$ 272.65	0.83%

Comment Summary

On June 10, the company notified its customers of the proposed rate increase by mail. Staff received 108 consumer comments regarding the proposed rate increase; 100 opposed to the rate increase, 3 in favor, and 5 undecided. Customers were notified that they may access relevant documents about this rate increase on the commission's website, and that they may contact John Cupp at 1-888-333-9882 or jcupp@utc.wa.gov with questions or concerns.

Business Practices
Twenty customers commented about missed pickups due to weather or labor disputes, and opposed paying for service they did not receive.

Staff Response
Staff continues to work with companies to resolve issues related to missed pickups.

General Comments
Twelve customers stated that the company's drivers are overpaid. Nine customers said the amount of the proposed increase is excessive. The condition of the economy was mentioned in seven comments; and poor customer service was mentioned six times. Many customers mentioned that they are senior citizens on fixed incomes. Many also feel their rates are already too high.

Staff Response
The customers were advised that state law requires rates to be fair, just, reasonable and sufficient to allow the company to recover reasonable operating expenses and the opportunity to earn a reasonable return on its investment. Regulatory staff reviews filings to ensure that all rates and fees are appropriate.

Conclusion

Staff recommends the Commission:

1. Dismiss the Complaint and Order suspending the tariff revisions filed on May 24, 2013, by Waste Management of Washington, Inc., dba Waste Management – Northwest.

2. Allow the revised tariff revisions as filed by the company on December 23, 2013, to become effective January 1, 2014.