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WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION
STAFF RESPONSE TO BENCH REQUEST

DATE PREPARED: September 25, 2024 DOCKET: TG-230778 REQUESTER: Bench		WITNESS: Benjamin Sharbono RESPONDER: Benjamin Sharbono TELEPHONE: 360-664-1242

BENCH REQUEST NO. 1:

In the evidentiary hearing and in the rebuttal testimony of Joe Wonderlick in Exh. JW-25CT at 5:9 – 7:7, the Company identified specific calculation issues with some of Staff's proposed adjustments.

a. Please clarify whether Staff will provide any updates to its proposed adjustments based on this testimony, including Staff's adjustments made to:
   - Insurance Expense
   - Termination Pay
   - Employee Community Activity; and
   - Sale of Assets (Stranded Asset)

b. If Staff proposes any revisions to the above referenced adjustments, or any other revisions to its proposal, please file a revised revenue requirement model that clearly identifies any changes, includes any supporting calculations, and provides a brief narrative description of any changes to Staff's current revenue requirement model (Exh. BS-11C). Please submit these documents in electronic spreadsheet format with all formulas and links intact as required by WAC 480-07-510(3)(e).

RESPONSE:

a. **<u>Insurance Expense</u>**:
   1. 59341 A&L – Current Year Claims
      Staff's recommendation is to remove the entire amount of the expense from rate payers. Based on the model provided by the company in JW-7C, the company proposes allowing the following allocations of expense into rates: [redacted] (Clallam (UTC)) and [redacted] (Jefferson (UTC)). Staff's revised proposed adjustment is to remove [redacted] (Clallam (UTC)) and [redacted] (Jefferson (UTC)). This should remove the total expense for UTC regulated customer rates. The effect is shown on Master IS, J183 and K183. See Staff Adjustments, AH22:AL25.

   2. 59342 Prior Year Claims
      Staff's recommendation is to remove the entire amount of the expense from rate payers. Based on the model provided by the company in JW-7C, the company proposes allowing the following allocations of expense into rates: [redacted] (Clallam (UTC)) and [redacted] (Jefferson (UTC)). Staff's revised proposed adjustment is to remove [redacted] (Clallam (UTC)) and [redacted] (Jefferson (UTC)). This should

remove the total expense for UTC regulated customer rates. The effect is shown on Master IS, J184 and K184. See Staff Adjustments, AH38:AL41.

Termination Pay:
Staff's recommendation is to remove the entire amount of the expense from rate payers. Based on the model provided by the company in JW-7C, the company proposes allowing the following allocations of expense into rates: [redacted] (Clallam (UTC)), [redacted] (Jefferson (UTC)), and [redacted] (Mill Long Hauls (UTC)). Staff's revised proposed adjustment is to remove [redacted] (Clallam (UTC)), [redacted] (Jefferson (UTC)), and [redacted] (Mill Long Hauls (UTC)). This should remove the total expense for UTC regulated customer rates. The effect is shown on the Master IS in cells J205, K205, and L205. See Staff Adjustments, F14:J18.

Employee Community Activity:
Staff's recommendation is to remove the entire amount of the expense from rate payers. Based on the model provided by the company in JW-7C, the company proposes allowing the following allocations of expense into rates: [redacted] (Clallam (UTC)), [redacted] (Jefferson (UTC)), and [redacted] (Mill Long Hauls (UTC)). Staff's revised proposed adjustment is to remove [redacted] (Clallam (UTC)), [redacted] (Jefferson (UTC)), and [redacted] (Mill Long Hauls (UTC)). This should remove the total expense for UTC regulated customer rates. The effect is shown on the Master IS in cells J277, K277, and L277. See Staff Adjustments, BF185:BI190.

Sale of Assets (Stranded Asset):
Staff's recommendation is to remove the entire amount of the expense from rate payers. Based on the model provided by the company in JW-7C, the company proposes allowing [redacted] in Clallam (UTC) expenses. Staff's revised proposed adjustment is to remove [redacted] from Clallam (UTC) expenses. This should remove the total expense for UTC regulated customer rates. The effect is shown on the Master IS in cell J316. See Staff Adjustments, EM18:EQ20.

b. Staff's revision noted above are effectively the same as staff's original adjustments, which were to remove the expense being passed on to customers. To complete the adjustments to accurately reflect the adjustments that staff would have made to the company's workbook JW-7C, staff incorporated the company total adjustments to restating and proforma columns (Master IS, columns F and G), then applied adjustments to the lines of service (Master IS, columns J, K, and L). These adjustments reduced the Lurito-Galagher results by a total of approximately [redacted].

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BENCH REQUEST NO. 2:

As referenced during the evidentiary hearing by the Company, Staff's response testimony (Exh. BS-1CTr) does not specify Staff's proposed total additional annual revenue requirement (or revenue increase) amount.

a. With respect to Exh. BS-11C, under the Excel worksheet titled "LG-Public – Regulated – Staff," Cell M21, please confirm whether the total revenue increase proposed by Staff is the [redacted] provided in Cell M21. If not, please state Staff's proposed total revenue increase and identify where this figure was derived. If Staff proposes a revision to its total revenue increase pursuant to Bench Request No. 1, please indicate as such.

b. Please identify Staff's proposed revenue increase for each individual line of service (e.g., "Mill Haul", "Clallam Total", "Clallam County Recycling", "Clallam County MSW", etc.).

    i. Please also indicate where each accompanying Lurito-Gallagher worksheet is contained in Staff's revenue requirement model (Exh. BS-11C). If these are contained in a revised workbook submitted pursuant to Bench Request No. 1, please provide Staff's proposal for each and indicate where these are contained in the revised revenue requirement model.

RESPONSE:

a. Staff's recommendation for a revenue increase is [redacted].

   Staff identified a calculational error in Investment (cell C7) of the Staff's LG. Staff's workbook number did not allocate the Investment between regulated and non-regulated operations. Staff revised the Investment to reflect only the regulated customer portion, resulting in a change from the original documents $1.163M increase. The result of the total company LG model is [redacted].

   To fulfill Bench Request No. 2-b, Staff included LG models for each line of service. Staff summed the revenue increases of the lines of service which results in a total revenue increase of [redacted].

   Staff's recommendation is for the commission to use the revenue increase generated by the Lurito Galagher model for each line of business – in this case, mill hauls, MSW, and recycling as referenced in Bench Request No. 2-b.

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b. Staff's recommended Revenue Increase for each individual line of service are:

Line of Service	**Increase**
• Mill Haul:	[redacted]
• Clallam County Total:	[redacted]
• Clallam County MSW:	[redacted]
• Clallam County Recycling:	[redacted]
• Jefferson County Total:	[redacted]
• Jefferson County MSW:	[redacted]
• Jefferson County Recycling:	[redacted]

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BENCH REQUEST NO. 3:

Referring to the Rebuttal Testimony of Company witness Joe Wonderlick Exh. JW-25CT at 36:17 – 38:7, the Company describes its proposed fuel expense adjustment, including discussion of its prior fixed price fuel agreement and its current market-priced fuel agreement.

a. Does Staff contest the Company's arguments regarding deviation from its literal interpretation of WAC 480-70-346? Please explain why or why not.

b. Does Staff agree with the Company's proposed calculation methodology for a pending fuel adjustment as described in this portion of testimony? Please explain why or why not.

c. Regarding Staff's proposed fuel adjustment referenced in Exh. BS-1CTr at 36:8-19, please clarify whether Staff proposes the use of 12-months of actual fuel invoices, as opposed to applying an updated fuel price to total gallons consumed during said 12-month period.

d. Referencing Exh. BS-11C "Staff Adjustments" worksheet, Cell AR451 through AR453, showing Staff's pro forma fuel adjustment, Staff appears to modify the Company's proposal regarding "CCA Costs." Please explain this portion of Staff's adjustment. Please also explain whether a similar adjustment would be necessary in a revised fuel expense adjustment using more recent fuel cost data.

RESPONSE:

a. Staff agrees that the fuel expense should be reflective of the cost of fuel. Staff understands the fuel cost update required by the Washington Administrative Code (WAC) is to bring the costs closer to the likely future costs, using historical fuel use. However, staff does not agree that the requirements WAC 480-70-346 should be modified in this case.

   Staff's position is deviations should be used sparingly to reflect changes in the market conditions for outside factors beyond the control of the company. These are things like increases in fuel taxes or fee pass-throughs, such as occurred with fuel companies passing on costs for the Climate Commitment Act or known and measurable changes in the contract price.

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b. Staff's position is the cost of fuel should be updated to the most recent 12-months of actual fuel expense as required by WAC 480-70-346. Staff has two reasons for the recommendation.

1. Mr. Wonderlick speaks to it being prevalent for companies to seek fuel contracts. (JW-25CT, 37: 14-16) During the test year, the company had a fuel contract with a provider in which fuel prices were significantly below the market price of fuel.

   The principle of WAC 480-70-346 is to align fuel expenses with likely future fuel costs. One reason for using historical test period is to reflect a company's practices for doing business. By using the most recent 12-month actual fuel costs, a company recovers fuel expenses based on a company's historical practices. In this case, the Company's historical practice is using fuel contracts.

   If the Company is allowed to update the fuel costs to the retail market rate and then enters a fuel contract, the Company harms customers by forcing customers to pay more for service than is necessary. As Mr. Wonderlick's testimony states, companies are using fuel contracts to stabilize fuel costs, potentially below normal market rates. The Company historically uses fuel contracts. It is not unforeseeable the Company will use fuel contracts again. The Commission's only recourse to address the harm to customers would be issuing a complaint against rates, forcing the company to file a general rate case, during which fuel expense would be addressed.

   If the Company does not enter a fuel contract, the Company has the recourse of filing a new general rate increase filing using the informal process to address changes in the Company's condition, a much simpler process in most situations than initiating a formal complaint against the Company's rates.

2. The company does not discuss the availability of fuel surcharges. Temporary fuel surcharges are a mechanism created by Commission order allowing companies experiencing fuel price fluctuations to implement a temporary surcharge to offset fuel price increases.

   Using this fuel surcharge mechanism, if the Company enters a new fuel contract, it is less likely to harm customers as a new fuel contract pricing will likely be closer to the expired fuel contract price than the retail market rate. Since fuel costs are only changed during a general rate filing, and the fuel surcharge mitigates the increase in fuel costs over the recognized fuel expense, it benefits the customers to have the lower fuel expense recognized in general rates.

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3. Staff also points out the Commission has not established a fuel expense tracker or other adjustment mechanism, and the Commission has made it clear it does not condone single item rate making. So, the primary recourse of the Commission to handle situations where a cost may subsequently decrease substantially is an order to submit a general rate filing.

c. Staff's recommendation identified in BS-1CTr at 36:8-19 is to use the 12 months of actual fuel invoices as required by WAC 480-70-346.

d. The calculations shown in Staff's model, exhibit BS-11C, "Staff Adjustments" worksheet, Cell AR451 through AR453 is a calculation related to updating the 2022 fuel contract prices for a [redacted] increase imposed by the fuel contract vendor in the second year of the contract. This also added Climate Commitment Act (CCA) related costs that were newly established in 2023, and not reflective of the market in 2022.

This adjustment is not necessary if the fuel costs are updated to the most recent 12-month period as per WAC. The CCA costs have been in effect since 2023 and are now part of normal fuel expenses. The increase in fuel expenses was due to a change in contract pricing that took effect in 2023, the contract expired December 31, 2023.