Agenda Date: January 25, 2017
Item Number: B1

Docket: TG-170977
Company Name: Basin Disposal, Inc. G-118

Staff: Scott Sevall, Regulatory Analyst

Recommendation

Issue an order allowing the deferred asset identified in Basin Disposal, Inc. petition to earn a return at the FERC rate of 4.25 percent and require the company to file tariff pages reflecting the rate impact by April 1, 2018.

Company Proposal

On September 15, 2017, Basin Disposal, Inc. (BDI), filed a petition for accounting order with the Utilities and Transportation Commission (commission). The petition requests that the commission allow a return on a deferred expense. The total value of the deferred asset is $1,278,305, of which $355,017 is allocated to regulated operations and is amortized over 10 years.[1] The yearly regulated expense is $35,502. BDI serves approximately 5,500 regulated customers in Benton, Franklin, and Walla Walla Counties.

BDI proposes to receive a return on the calculated average investment of $337,266, which at the Lurito-Gallagher (LG) rate, would amount to additional annual revenue of $54,824. If this proposal is found unacceptable by the commission, BDI has proposed the following two alternatives:

- A return at the Federal Energy Regulatory Commission (FERC) rate, which is currently 4.25 percent.[2] This would result in $14,334 additional annual revenue.
- Shorten the current 10-year amortization period to 5 years. This would double the currently recognized cost, resulting in $35,502 of additional annual revenue, for a total of $71,004 yearly amortized cost.

History

On July 1, 1992, Washington Department of Ecology (Ecology) issued *Agreed Order No. DE 92TC-E105* pursuant to RCW 70.105D.050 (1). This order lists Basin Disposal Company (now Basin Disposal, Inc.) as a Potentially Liable Party (PLP) along with a list of 29 additional PLPs including Burlington Northern Railroad, The Boeing Company, PACCAR, Inc., and Weyerhaeuser.

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1 The numbers are generated from Docket TG-170189 work papers. These work papers represent the company and staff informal settlement of the rate case filed under Docket TG-170189.
2 "Interest rates," ferc.gov, accessed January 17, 2018. https://www.ferc.gov/enforcement/acct-matts/interest-rates.asp

Since the issuance of order *DE 92TC-E105*, Basin Disposal, Inc., has been required to participate in the PLP process to remediate the Pasco Sanitary Landfill, located in Pasco, Washington. The process has caused BDI to incur costs which are divided into two basic categories, the yearly legal costs for representation and environmental remediation costs.

During BDI's recent rate case, in Docket TG-170189, BDI requested recovery of the legal costs associated with the PLP process. Staff researched whether recovery was appropriate by reviewing past BDI rate cases along with past commission orders. Staff found that the commission had recognized PLP legal costs in the previous BDI rate case, Docket TG-130225. However, the PLP legal costs had not been allowed to be recovered, but instead were ordered to be deferred and allowed a return at the LG calculated rate on the accumulated balance. In TG-170189, staff disagreed with the previous ratemaking treatment of PLP costs.

In contrast to the 2013 docket, in Docket TG-170189 staff recognized PLP legal costs were on-going costs separate from prior obligation environmental remediation costs and recommended allowing current recovery of PLP legal costs. The recommended treatment is consistent with the commission's April 1992 order authorizing accounting treatment for Puget Sound Energy in Docket UE-911476, in which it filed a petition seeking an order regarding the accounting treatment of costs for environmental remediation; an order that was issued months before BDI became a PLP.

In TG-170189, staff opposed allowing a LG rate of return on the deferred PLP costs because staff believed the prior year's PLP legal costs were not "used and useful." In order to settle the rate case, BDI and staff agreed that the company would not receive a return but would instead petition the commission in a separate filing requesting a return on the deferred remediation costs.

Discussion

The outcome of TG-170189 ensures that BDI recovers all of its future and past PLP legal costs. However, no return was allowed on the deferred balances. BDI is proposing to earn a LG return on the deferred PLP legal costs. Short of allowing a LG return, the company proposes the commission allow a return at the FERC rate, or, as a last alternative, to recover the deferred cost over a five-year period rather than the 10 years allowed in TG-170189.

Staff opposes the company proposal to earn at LG rate as being excessive and also opposes the proposal of shortening the amortization period as not being consistent with its accrual. Staff supports the BDI's proposal of receiving a return equal to the current FERC rate. Staff's support is based on a commission order issued in UE-911476 allowing deferred costs to be included in the company's working capital calculation. The operating ratio model of rate making does not recognize working capital in the same fashion as utilities, instead Staff accepts the company proposal of providing a return at the FERC rate.

Conclusion

Issue an order allowing the deferred asset identified in Basin Disposal, Inc. petition to earn a return at the FERC rate of 4.25 percent and require the company to file tariff pages reflecting the rate impact by April 1, 2018.