Agenda Date: February 26, 2015

Item Number: B1

**Docket: TG-143889**

Company Name: Waste Management of Washington, Inc., dba Waste Management of Spokane

Staff: Ann LaRue, Lead Regulatory Analyst

 Mike Young, Regulatory Analyst

 John Cupp, Consumer Protection Staff

**Recommendation**

1. Allow the revised rates filed by Waste Management of Washington, Inc., dba Waste Management of Spokane on November 14, 2014, and revised on February 17, 2015, to go into effect March 1, 2015, on a temporary basis, subject to refund.
2. Set this docket for a pre-hearing conference.

**Background**

On November 14, 2014, Waste Management of Washington, Inc., dba Waste Management of Spokane (WM Spokane or company), filed tariff revisions with the Utilities and Transportation Commission (commission) that would generate approximately $1,160,000 (10 percent) additional annual revenue. The proposed increase was prompted by increases in labor and other operating and administrative costs, and a reduced regulated customer base. The reduced regulated customer base is due to the cities of Spokane Valley and Liberty Lake contracting with WM Spokane for waste hauling services. In doing so, the number of regulated residential, commercial, and drop box customers being served by WM Spokane has dropped to approximately 26,500 from approximately 52,000. The company’s last general rate increase became effective May 1, 2013.

At the December 30, 2014, open meeting the commission issued a complaint and order suspending the tariff revisions filed by WM Spokane on November 14, 2014, and revised on December 19, 2014. The commission also ordered WM Spokane to file replacement pages for disposal only rates, to become effective on January 1, 2015, in accordance with RCW 81.77.160 and WAC 480-70-341.

Prior to the December 30, 2014, open meeting the City of Millwood and Spokane County (the county) filed notices of appearance. The commission tasked staff to further review the allocation factors used in this general rate case, including compressed natural gas (CNG) vehicles and facilities, and the related depreciable lives and depreciation schedules used. Staff was also instructed to include the city and the county in further discussion to the extent they were willing and able to participate to resolve this matter without a hearing. On January 16, 2015, Spokane County filed a Petition to Intervene. On January 20, 2015, the City of Millwood filed a Notice of Withdrawal.

On January 29, 2015, staff, the company, and the county met to discuss issues surrounding this case. The county stated concerns about the increased rates that will impact them, as ratepayers, as well as the other ratepayers in the remaining regulated service area of WM Spokane, primarily located in unincorporated Spokane County. The company provided redacted workpapers to the county on January 30, 2015. On February 13, 2015, the county filed a request for public records (RFPR) which the county subsequently suspened on February 19, 2015.

**Discussion**

Staff and the company worked diligently to further clarify the cost allocation factors used in this rate case and also reviewed regulated expenses for this rate case in relation to the regulated expenses in the previous case. The regulated cost allocation factors, as well as the regulated expenses have decreased by approximately half, corresponding to approximately half of the company’s regulated customers having changed from regulated to nonregulated service due to new contracts with Spokane Valley and Liberty Lake. The similarity of the expense percentages from the prior case to this case, show costs remain in line with former operations.

The loss of more dense, urban customers, and fully automated routes into the now-contracted areas caused a reduction in efficiencies within the regulated service area for WM Spokane. It now costs the company more, per customer, to serve the remaining regulated customers because routes had to be changed, customers are located further apart, and drivers spend more time servicing the remaining customers.

Other changes since the company’s last rate case include: a $6 million (40 percent) increase in plant and equipment investment costs; increased labor cost of $460,000 (3.7 percent of total labor expenses); decreased fuel costs of $65,000 (6.5 percent of total fuel expenses); and a $107,000 (0.01 percent) decrease in disposal fees. While the overall increase is approximately 8.6 percent, there is a big variance in the percentage increases for each line of business:

* garbage rates are increasing approximately 4.5 percent;
* yard waste rates are increasing approximately 26.8 percent, and;
* residential recycling rates are increasing approximately 13.8 percent.

These differences are primarily due to the new, higher investment in plant and equipment for the yard waste and recycling lines of business.

Commission staff has completed its review of the company’s supporting financial documents and responses to data requests and concluded that the company is entitled to revise its rates accordingly. Therefore, in order to establish temporary rates, staff and the company have agreed to a revised revenue requirement of approximately $992,000 (8.6 percent) additional annual revenue and on lower revised rates, to be allowed on a temporary basis, subject to refund. On February 17, 2015, the company filed revised pages at staff recommended levels. However, staff recommends the commission allow the revised rates on a temporary basis, subject to refund, to afford interested parties, including Spokane County, an opportunity to voice their respective concerns. We urge the commission to set this matter for hearing.

**Rate Comparison**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Residential Monthly Rates****(weekly service)** | Current Tariff Rate | Company Proposed Rates | Temporary Disposal Only Rate | Staff Revised Temporary Rates | Increase Over Current Tariff Rate |
| 1 32-Gallon Can | $13.39 | $14.32 | $13.22 | $13.99 | 4.5% |
| 1 35-Gallon Cart | $14.45 | $15.46 | $14.26 | $15.09 | 4.4% |
| 1 64-Gallon Cart | $21.79 | $23.31 | $21.55 | $22.76 | 4.5% |
| 1 96-Gallon Cart | $29.14 | $31.17 | $28.79 | $30.44 | 4.5% |
| **Residential Yard Waste** |  |  |  |  |  |
| 1 96 Gallon Cart | $10.71 | $13.72 | n/a | $13.58 | 26.8% |
| **Residential Recycling** |  |  |  |  |  |
| 1 96 Gallon Cart | $7.16 | $8.32 | n/a | $8.15 | 13.8% |
| **Commercial** **(per pickup)** |  |  |  |  |  |
| 32-Gallon Can | $3.49 | $3.72 | $3.46 | $3.65 | 4.6% |
| 2-Yard Container | $27.33 | $29.14 | $26.95 | $28.55 | 4.5% |
| **Drop-Box Service** |  |  |  |  |  |
| 20-Yard Container | $65.00 | $65.00 | $65.00 | $67.90 | 4.5% |

**Comment Summary**

On December 1, 2014, the company notified its customers of the proposed rate increase. Customers were notified by mail that they may access relevant documents about this rate increase on the Commission's website, and they may contact John Cupp at 1-888-333-9882 or jcupp@utc.wa.gov with questions or concerns. Staff received 47 consumer comments regarding the proposed rate increase; 43 opposed to the rate increase, one in favor, and three undecided.

**General Comments**

Twenty-four customers commented that fuel prices are down, and should not be a reason for the company’s rates to increase. Four customers stated that the current rates are already too high. Several customers stated that the company needs to cut costs rather than pass everything through to customers.

**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.

The Spokane Office of County Commissioners and the City of Millwood provided comments on this case. They disagree with the claim of a reduced customer base because the company still provides service to residents of Spokane Valley and Liberty Lake. Additionally, Spokane County commented that it has reduced disposal rates at county-owned transfer stations, further reducing the need for a rate increase.

**Staff Response**

Staff is aware of these concerns and has considered them in the analysis of this case. The customers’ comments do not change staff’s opinion that the company’s financial information supports the proposed revenue requirement and the revised rates and charges are fair, just, reasonable, and sufficient.

**Conclusion**

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