Ex _____ (NSP-T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

KING COUNTY DEPARTMENT OF PUBLIC WORKS, SOLID WASTE DIVISION, Complainant, vs. SEATTLE DISPOSAL COMPANY, RABANCO, LTD., d/b/a/EASTSIDE DISPOSAL AND CONTAINER HAULING Respondent.	DOCKET NO. TG-940411 TESTIMONY OF NICHOLAS S. PEALY

Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

A. My name is Nicholas S. Pealy.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am currently the Director of Strategic Planning, Finance and Information System, Seattle Solid Waste Utility.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.

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A. I received a Bachelor of Arts Degree in Political Science and Mathematics, with Honors, from Whitman College. In 1985 I received a Masters of Arts in Economics from the University of Washington. I am presently a Candidate for a Doctorate in Economics at the University of Washington.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES IN YOUR CURRENT JOB.

A. I am Manager of Strategic Recycling and Disposal System Planning. I am also the Manager of Finance and Information Systems. In these capacities I am responsible for rates, transfer station billing, and data processing.

Q. ARE YOU FAMILIAR WITH THE SUBJECT MATTER OF WUTC DOCKET NO. TG-940411?

A. Yes. I have reviewed information provided to me by the King County Solid Waste Division, including King County's Complaint in Docket No. TG-940411, its Petition for Reconsideration of Docket No. TG-931585, and a memorandum, dated February 24, 1994, from Teresa Osinski, Policy Specialist, to Chairman Nelson and Commissioners Hemstad and Casad. See Exhibit ___ (NSP 1).

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Q. WHAT AREAS WILL YOU ADDRESS IN THIS TESTIMONY?

A. I will address the question "To what extent does solid waste rate design affect solid waste disposal and recycling in Seattle?" I will also address the experience of the City of Seattle Solid Waste Utility since instituting curbside recycling pick-up and inverted rates for garbage and recycling service. I will address Seattle's estimates of the elasticity of demand for garbage disposal. I will also address market trend data compiled for various recyclable materials by the Seattle Solid Waste Utility.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. I will testify that between 1981 and 1992, Seattle Solid Waste Utility has experienced a dramatic shift in service levels from 82% of customers at the 120 gallon level in 1981 to 93% of customers at the micro-can, mini-can or one-can levels in 1992. This shift in service levels has been the result of Seattle's implementation of rates that offer significant incentives to reduce waste and recycle, and the introduction of curbside collection of recyclables and yard waste.

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Between 1986 and 1988, rate incentives were in effect but curbside recycling collection was not. During that period there was a reduction in residential disposed tons.

Seattle reduced its estimate of the elasticity of garbage disposal in 1988. It computed the new elasticity using an average rate, and we expected the elasticity to decline over time because of Seattle's high curbside recycling participation rate and our high recovery rates. In an area where rates are less steeply inverted than Seattle, I would expect further inversion of rates to have a significant impact on recycling participation and recovery rates.

Q. AS PART OF YOUR JOB RESPONSIBILITIES, DO YOU OR DO OR DOES SOMEONE THAT YOU SUPERVISE COMPILE AND MAINTAIN DATA REGARDING SERVICE LEVEL PRICING FOR SEATTLE SOLID WASTE UTILITY CUSTOMERS AND MARKET TREND DATA REGARDING PRICES FOR RECYCLABLE MATERIALS?

A. Yes. Individuals that I supervise routinely maintain service level pricing data and market trend data over time.

Q. ARE YOU FAMILIAR WITH SEATTLE SOLID WASTE UTILITY'S RATE DESIGN SINCE THE MID-1980'S?

A. Yes.

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Q. WHAT HAS BEEN SEATTLE'S POLICY DURING THAT PERIOD REGARDING THE PRICING OF LEVELS OF SERVICE?

A. Since the mid-1980's Seattle has steadily increased the price of additional cans of service beyond the one-can, and later the mini-can and micro-can, levels of service.

Q. DURING THE PERIOD SINCE THE MID-1980'S, WHAT HAS BEEN SEATTLE'S EXPERIENCE WITH REGARD TO THE SERVICE LEVEL DISTRIBUTION OF ITS SOLID WASTE CUSTOMERS?

A. The Table, attached as Exhibit ___ (NSP 2), illustrates the service level distribution for Seattle Solid Waste Utility customers from 1981 to 1992. During that period, and most notably since the mid-1980's, there has been a dramatic shift in service levels. In 1981, 82% of customers had service at the 120 gallon level; in 1992, 93% of customers received service at the micro-can, mini-can, or one-can levels.

Q. TO WHAT DO YOU ASCRIBE THIS SHIFT IN SERVICE LEVELS?

A. This shift in service levels has been a result of two factors: (1) the City's decision to increase the "extra can" rate from $5.00/month per container in 1989 to $14.98/month per container in 1992; and (2) the introduction of curbside collection of recyclables and

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yard waste, which occurred in 1988 and 1989, respectively.

Q. DOES THE "EXTRA CAN" RATE EQUATE TO THE ACTUAL FINANCIAL COST OF COLLECTING THE EXTRA CAN?

A. No. The "extra can" rate exceeds the financial cost of collecting an extra can. The decision to charge this rate is based upon the policy that the Mayor and the City Council have consistently taken that the City's rates should provide significant incentives to recycle.

Q. WHAT IS THE BASIS FOR THIS POLICY?

A. This policy is based on the fact that the resource conservation benefits of recycling and recycling and waste reduction exceed those of disposal or incineration. These benefits are documented in Working Paper #1 by John Schall, "Does the Solid Waste Management Hierarchy Make Sense?", October 1992. See Exhibit ___ (NSP 3). Here in Seattle, recycling is cheaper on a per ton basis than garbage disposal. See Exhibit ___ (NSP 4). From the perspective of Seattle's policy makers, it important to encourage recycling, even if it means shifting costs from lower service level customers to customers with larger cans. Exhibit ___

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(NSP 5) illustrates the history of Seattle's variable can rates since 1981.

Q. YOU ASCRIBE THE SHIFT IN SERVICE LEVELS FROM LARGER TO SMALLER CANS TO TWO CAUSES: THE CITY'S DECISION TO INCREASE THE "EXTRA CAN" RATE AND THE INTRODUCTION OF CURBSIDE COLLECTION OF RECYCLABLES AND YARD WASTE. WHAT HAS BEEN THE CUMULATIVE EFFECT OF THESE TWO FACTORS?

A. Exhibit ___ (NSP 6) and Exhibit ___ (NSP 7), which are examples of reports prepared monthly by Solid Waste Utility Staff, illustrate the impact that the City's rate design and convenient programs have had on garbage disposal and recycling tonnage. The "December 1993 Garbage Report (Exhibit ___ (NSP 6)) shows that Seattle's residential garbage tonnage has decreased from 179,966 tons in 1988 to 144,127 tons in 1993 despite substantial population growth in the late 1980's and early 1990's. Curbside recycling tonnage, on the other hand, increased from 23,984 tons in 1988 to 50,795 tons in 1993. See Exhibit ___ (NSP 7). These shifts from more costly garbage disposal to less costly recycling are a direct consequence of our steeply inverted rates and the fact that we provide convenient programs. Although the absence of data makes it difficult to separate the impact of rate design from the impact of

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convenience or customer's recycling and waste reduction practices, a rough estimate of the impact of changes is the extra can rate or disposal would be -.1 to -.2. This figure is based on the reduction in residential disposed tons that Seattle experienced between 1986 and 1988 before curbside recycling was introduced, but a period when the extra can rates increased from $.3.30/month to $5.00/month.

Q. WHAT IS THE CITY'S ESTIMATION OF THE ELASTICITY OF GARBAGE DISPOSAL?

A. The City's current estimation is -.07, which was calculated in 1992.

Q. HAS THE CITY'S ESTIMATE OF ELASTICITY OF GARBAGE DISPOSAL CHANGED OVER TIME.

A. Yes. It was estimated to be -.14 in 1988.

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Q. IS THIS REDUCTION IN ELASTICITY FROM -.14 TO -.07 EVIDENCE OF A CONCLUSION BY THE SOLID WASTE UTILITY THAT THE RATE DESIGN DOES NOT HAVE A SIGNIFICANT IMPACT ON GARBAGE DISPOSAL?

A. No. Such a conclusion is erroneous because (1) the more-recent elasticity was computed using an average rate, meaning that it measures the impact of changes in the level of rates, not the structure of rates; and (2) given the high curbside recycling participation rate in Seattle, and our high recovery rates, we would expect this elasticity to decline over time. High recovery rates mean that less recyclable material remains in the garbage stream, so the rate increases produce smaller and smaller increases in recovery rates over time.

Q. WHAT WOULD YOU EXPECT THE ELASTICITY OF GARBAGE DISPOSAL TO BE IN AN AREA WHERE RATE LEVELS ARE LOWER AND RATES LESS STEEPLY INVERTED THAN IN SEATTLE?

A. I would expect that further inversion of rates would have a significant impact on recycling participation and recovery rates.

Q. YOU STATED EARLIER THAT THE SOLID WASTE UTILITY MAINTAINS AND COMPILES DATA REGARDING MARKET TRENDS FOR

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RECYCLABLE MATERIALS; HAS THE UTILITY COMPILED THIS DATA SINCE 1992?

A. Yes. Exhibit 48 (DAD-3) ~~(NSP-8)~~, reflects prices for various recyclable materials as reported to the City by Waste Management, as well as various price indicators tracked by the City.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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