

Agenda Date: November 22, 2019
Item Number: C1

Docket: **TG-180782**
Company Name: Freedom 2000, LLC, d/b/a Cando Recycling and Disposal

Staff: Greg Hammond, Regulatory Analyst
Mike Young, Section Manager, Water and Transportation
John Cupp, Consumer Protection Staff

Recommendations

Take no action in acknowledging the compliance filing by Freedom 2000, LLC, as required by Order 01 in Docket TG-180782, issued November 30, 2018.

Discussion

On August 28, 2019, Freedom 2000, LLC, d/b/a Cando Recycling and Disposal (Cando or company) made a compliance filing with the Washington Utilities and Transportation Commission (commission) pursuant to Order 01 in Docket TG-180782, which required compliance filings to be made by August 15, 2019, and August 15, 2020. The ordered compliance filings were a result of the company's general rate case under this docket, which reflected the addition of an estimated 1,600 customers due to the implementation of mandatory garbage and recycling service in Point Roberts.

The Whatcom County Health department (County) passed Ordinance 2018-031 which established a minimum curbside collection service of 26 annual pickups, or every-other week service, consisting of one 32-gallon garbage can and three-bin set of source separated recyclables.¹ The ordinance dictates the cost of the minimum level of service, as per the commission tariff, will be billed as an annual fee along with the property tax bill for each single family residence resulting in approximately 1,600 additional monthly customers. Prior to the change to mandatory garbage and recycling service, the company served about 300 monthly customers.

Because the company's initial general rate case filing included several projections and estimates to determine appropriate rates for the new mandatory garbage and recycling service, the commission ordered the two follow-up compliance filings to allow commission staff (staff) review, and if necessary, adjustment to the rates set during the general rate case. This filing reflects the first of the two compliance filings ordered by the commission. It uses six months of financial data, from January 1, 2019, through June 30, 2019. The next compliance filing, to be filed by August 15, 2020, would use a full year of financial data, from July 1, 2019 through June 30, 2020.

¹ While the company offers residential customers weekly pickup service, customers selecting weekly service will be billed an additional amount by the company which is on top of the garbage and recycling collection assessment billed and collected by the county. The additional amount billed by the company to weekly customers will compensate the company for higher costs associated with weekly garbage pickups.

Staff reviewed the six months of financial data provided by the company and performed a site visit of the company offices in Point Roberts. There, staff gathered additional data and verified the company's assets that were included in its general rate case.

The owner of Freedom 2000, LLC, also contracts with the county to operate the transfer station, a separate operation within the company, creating an affiliate relationship. The two operations share labor, insurance, and some operating costs such as rent and utilities. In its review, staff examined the financial data of the combined operation, and based on staff's calculations the company experienced a total revenue deficiency of approximately \$2,000 (or 0.8 percent) over the six-month period under review. A \$2,000 annual increase would amount to approximately \$0.08 per customer per month. The company does not feel the increase is significant enough to warrant a tariff change at this time, based on only six months of data. Staff agrees with the company's assessment and believes a tariff change for such a small amount would be confusing to customers after the significant changes in minimum service levels and billing methods that took place last year.

That said, when staff separated the collection operations into its respective regulated and non-regulated components, there was a variance between the calculated additional annual revenue requirements associated with garbage and recycling operations. Based on staff's analysis, the company experienced a revenue deficiency of approximately \$27,000 from its recycling operations due to the cost of processing and transporting recycling material. The material is handled by the transfer station and transported to different facilities in Canada based on the type of material. Those transportation costs were included as a transfer station cost in the original rate case, but should have been included in the cost of recycling service. Additionally, the cost to process those materials was relatively low in 2017, the test year used for the original rate case. Since then, processing costs have increased significantly as a result of changes in recycling markets. Reclassification of those costs is the primary reason for the \$27,000 revenue deficiency for recycling services.

Conversely, the handling and transportation costs borne by the transfer station were included in the tip fees passed back to the garbage operation due to sharing of employees and facilities. When those costs are adjusted, the result is excess revenue of about \$25,000 on the garbage operations. Because the current rates were set based on estimated costs of providing these services, some variability was expected. Since customers are required to pay both garbage and recycling fees through the county, combined, there would be no change to a customer's overall payment. For this reason, and because the company is still adjusting to changes in the first six months of operation, staff does not support a change to tariff rates at this time since it may instead lead to confusion and doubt about the effectiveness of the service changes implemented last year. A better picture will emerge with a full year's worth of cost data, especially as Point Roberts is susceptible to seasonal changes in tonnages collected.

For these reasons, the company has elected not to make any changes to its existing rates under this filing. Because this filing included only six months of financial data, up through June of 2019, staff recognizes that some seasonal fluctuations in garbage and recycling volumes has not yet been

reflected in the company's financial data. Due to the way the customer payments are structured, the company's revenues from the mandatory residential garbage and recycling will remain relatively consistent throughout the year. The company's expenses on the other hand, will fluctuate as the volume of garbage and recycling increase during the more populated summer months. Because of the above factors, staff recommends no change to rates at this time and that the commission acknowledge compliance by Freedom 2000 of the commission's Order 1 in Docket TG-180782.

Customer Comments

On October 15, 2019, the company notified its customers of the open meeting presentation. Staff received 11 consumer comments. The customers feel paying for 26 pickups per year is unfair because they do not require that level of service.

Staff Response

Staff explained that the minimum level of service and the number of customers is set by Whatcom County. Staff must use this data in setting rates to ensure the company has the resources to provide the service levels in accordance with county requirements.

Recommendation

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