Exhibit MP-1T

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

In Re Application No. GA-079251 of HAROLD LeMAY ENTERPRISES, INC., ET AL., For an Extension of Certificate No. G-98 for a Certificate of Public Convenience and Necessity	CONSOLIDATED DOCKET NOS. DOCKET NO. TG-040221
In Re Application No. GA-079254 of KLEEN ENVIRONMENTAL TECHNOLOGIES, INC. For a Certificate of Public Convenience and Necessity	DOCKET NO. TG-040248 **PREFILED TESTIMONY OF MICHAEL PHILPOTT**
In Re Application No. GA-079266 of RUBATINO REFUSE REMOVAL, INC. For an Extension of Certificate No. G-58 for a Certificate of Public Convenience and Necessity to Operate Motor Vehicles in Furnishing Solid Waste Collection Service	DOCKET NO. TG-040553

PREFILED TESTIMONY OF MICHAEL PHILPOTT

Michael Philpott, subject to penalties of perjury of the laws of the State of Washington, declares and states as follows:

Overview

1. I am Pacific Northwest District Manager of Stericycle, Inc. In that capacity, I manage the operations of Stericycle, Inc. in the Pacific Northwest, including Stericycle, Inc.'s biomedical waste processing facility in Morton, Washington. I am also the person primarily responsible for day-to-day management of the operations of Stericycle of Washington, Inc. I have held my present position and have performed these functions since 1999. Prior to that time, I was employed with BFI Medical Waste Systems of Washington, Inc. ("BFI") in various positions for four years, holding the position of District Vice President at the time BFI was acquired by Stericycle.. I currently also hold the position of Western Canadian Regional Manager for Stericycle of Canada, Inc., responsible for overseeing the biomedical waste collection services of Stericycle of Canada in western Canada.

3. Stericycle of Washington, Inc. ("Stericycle") provides statewide biomedical waste collection, transportation and disposal services to almost 6,000 medical waste generators in Washington pursuant to a Certificate of Public Convenience and Necessity issued by the Washington Utilities and Transportation Commission ("Commission"). A copy of Stericycle's Certificate (G-244) is attached hereto as Exhibit MP-2. Stericycle operates 23 commercial vehicles and employs 26 drivers, five (5) customer service representatives, three (3) transportation managers, one (1) warehouse and supplies manager, one (1) safety and regulatory compliance manager plus myself in providing services to Washington biomedical waste generators under Certificate G-244. In addition, Stericycle receives extensive accounting and management support from its parent company. In addition to biomedical waste collection

services regulated by the Commission, Stericycle offers its customers various related programs provided by Stericycle, Inc., including a program for OSHA compliance and bloodborne pathogen training, the Biosystems® program for reusable sharps containers, a medical waste "mail-back" program for small quantity generators of biomedical waste, a mercury and dental amalgam recycling "mail-back" program for dentists and other dental practitioners and another "mail-back" program for disposal of waste pharmaceuticals that may not be handled as part of the regulated medical waste stream.

3. Stericycle is a wholly owned subsidiary of Stericycle, Inc., a publicly traded company. Stericycle, Inc. was formed by healthcare professionals to serve the specialized biomedical waste management and disposal needs of the healthcare industry and that remains its primary business focus. Stericycle, Inc. now provides specialized biomedical waste management, collection and disposal services to biomedical waste generators nationwide. Stericycle was formed by Stericycle, Inc. to provide biomedical collection, transportation and disposal services to medical waste generators in Washington.

4. Stericycle introduced important innovations in biomedical waste collection services when it entered the Washington market. Those innovations included (i) training of generator personnel in the segregation, handling and disposal of regulated medical waste; (ii) use of hard plastic, leak proof and puncture resistant reusable containers for greater safety and security in the handling of medical waste; (iii) use of a non-incinerative waste processing and disposal technologies to disinfect and reduce the volume of the waste without production of harmful air emissions or incinerator ash; (iv) use of waste processing technologies that permitted recycling of some plastics in source segregated sharps waste; and (v) use of hand-held scanners and computerized bar code labels to track each container of medical waste from pickup to

processing and disposal. None of these innovations was present in Washington before Stericycle's entry into the Washington market.

5. Stericycle continues to provide superior biomedical waste collection and disposal services to medical waste generators in every corner of Washington. Medical waste management is Stericycle's only business, and not a mere side-line. Stericycle's practices and procedures have been carefully designed to ensure safety and regulatory compliance. Stericycle personnel are focused on the requirements of safety, regulatory compliance and customer service in this intensely regulated and highly specialized business.

Initiation of Service

6. Stericycle's services and procedures satisfy all applicable regulatory requirements governing the collection, transportation and disposal of biomedical waste. Before Stericycle initiates service to a customer, Stericycle provides the customer with a comprehensive package of materials describing its services, including a "waste acceptance protocol" explaining the generator's responsibilities for packaging its waste for shipment and the types of waste that Stericycle is authorized to handle. A copy of Stericycle's "new customer" information package, including Stericycle's current waste acceptance protocol and tariff, is attached hereto as Exhibit MP-3.

Container Tracking System/Shipping Documents

7. Stericycle employs a proprietary computerized tracking system, called "Biotrack®," to identify each container of waste Stericycle handles and to track each container through processing and disposal. In this way, Stericycle can account for the processing and disposal of every container of waste it handles and assure its customers that all of their waste has been properly processed and disposed of.

8. Stericycle provides its customers with self-adhesive, customer-specific, preprinted Biotrack bar code labels for their use in labeling each container of waste prepared for pickup by Stericycle. Each of these labels is preprinted the customer's name and address, Stericycle's name and address and a unique bar code identifier. The bar code identifier is a unique identification number for the particular container. An example of Stericycle's bar code label is attached hereto as Exhibit MP-4.

9. Stericycle currently bases its collection vehicles (route trucks) at six equipment yards from which services are provided to Washington generators: Kent, Woodinville, Spokane and Pasco in Washington and Portland, Oregon. Each day, prior to leaving Stericycle's equipment yard, each Stericycle route driver receives a route sheet from the Stericycle dispatcher, with bar codes identifying each customer to be picked up by the driver that day and the shipping manifest number for each customer's pickup. A cover page for the route sheet also includes bar codes identifying the driver, the truck and the route. The route driver begins his route by scanning these bar codes, thus opening a new route file in the Biotrack system under the driver's name, the truck number and the route number. The date is automatically provided by the Biotrack system. Copies of a typical route sheet and cover page are attached hereto as Exhibit MP-5.

10. The Stericycle dispatcher also provides each driver with a shipping manifest (identified with a pre-printed manifest number) for each generator on the driver's route for the day . The shipping manifest is a multicopy form, preprinted with the generator's name and address, an identifying number for the customer and the pickup location; a manifest number; the route number; and the date. A copy of Stericycle's standard shipping manifest is attached hereto as Exhibit MP-6.

11. Prior to pickup, Stericycle's customers affix a Biotrack bar code label to each container of their waste. At pickup, Stericycle's drivers scan those bar code labels with a hand-held computerized scanner. Using the scanner, the driver records each container's unique bar code indentifier, as well as the container size and type. The driver then records the number and type of each container on the shipping manifest, confirms the totals with the customer and obtains the customer's signature on the shipping manifest. A copy of the manifest is provided to the customer at pickup. The driver also prints out a report of the bar code data scanned into the Biotrack system at pickup, including the number and type of each container picked up, and provides this report to the generator's representative, attached to a copy of the shipping manifest. A copy of a typical Biotrack printout is attached hereto as Exhibit MP-7.

Transportation Logistics

12. When Stericycle's drivers complete their routes each day, they return to the Stericycle equipment yard where they are based. At the yard, the driver transfers the containers of biomedical waste from his route truck directly to a highway trailer for temporary storage and subsequent transportation to Stericycle, Inc.'s Morton biomedical waste processing facility. The original shipping manifests for all pickups on the driver's route are transferred to the highway trailer at the same time. Finally, the driver uploads all of the Biotrack data from his hand-held scanner into the Stericycle computer system.

Treatment and Disposal

13. Stericycle transports all biomedical waste it collects from Washington generators to Stericycle, Inc.'s processing facility at Morton, Lewis County, Washington (the "Morton facility"). With the exception of pathological waste, trace chemotherapy waste and other biomedical waste designated by the generator for incineration, all biomedical waste collected by

Stericycle is processed at the Morton facility to render it noninfectious. Stericycle, Inc.'s Morton, Washington biomedical waste processing facility employs two alternative non-incinerative processing technologies to render biomedical waste noninfectious: Stericycle's proprietary electro-thermal deactivation ("ETD") process and steam autoclaving.

14. In the ETD process, the waste is introduced into a contained processing area (the "containment area") where it is put through a grinder and then bombarded with radiowaves in a dielectric oven. The ETD process kills pathogens without affecting the molecular structure of the waste itself. Moisture in the waste absorbs energy from the radiowaves, producing heat. The pathogen organisms themselves are also directly disrupted by the radiowaves. Grinding the waste reduces its volume and makes the waste unrecognizable.

15. In 2003, Stericycle, Inc. installed a new, state-of-the-art steam autoclave at the Morton facility. Steam autoclaving involves the introduction of pressurized steam into a fully-contained autoclave chamber. The steam heats the waste in the chamber, killing the pathogens.

16. Both the ETD and the autoclave process employed at the Morton processing facility render the waste noninfectious in compliance with applicable regulatory standards. The ETD process also grinds the waste, reducing its volume by approximately 85% and rendering it unrecognizable. After compaction, the volume of waste processed in the autoclave is reduced by 75%. In both cases, following decontamination, the waste is transported to a landfill in Oregon for disposal. After processing, the processed waste is no longer infectious and is considered and handled as general solid waste.

17. Neither the ETD process nor the steam autoclave process generates any harmful waste effluents or emissions. Stericycle, Inc.'s Morton facility generates no wastes except sanitary wastes discharged to the City of Morton sewer system and small quantities of solvents,

greases, oils and similar compounds used in the maintenance of the plant's equipment which are returned to the supplier of these products for recycling or disposal.

18. Stericycle requires that its customers segregate their pathological waste, trace chemotherapy waste and any other biomedical waste designated by the generator for incineration from other segments of the biomedical waste stream, pack such wastes in specially designated, easily identifiable grey reusable plastic containers (to distinguish them from the red or black reusable plastic containers used for other types of medical waste) and affix a yellow Biotrack label to the container (as opposed to the white label used for other types of waste). The bar code label of each container containing waste designated by the generator for incineration is scanned at the Morton facility as it is transferred to a highway trailer for further transportation to and disposal at an incineration facility operated by Stericycle, Inc. in North Salt Lake, Utah. Normally, all Washington path/chemo waste handled by Stericycle and any other waste designated for incineration is disposed of at the Stericycle, Inc. North Salt Lake incineration facility.

19. The Morton facility and the North Salt Lake incinerator are both equipped with computerized Biotrack bar code scanners linked to Stericycle's computer system. In each case, immediately prior to processing or incineration, as the case may be, the container's bar code label is scanned and recorded. Stericycle's computers match the containers processed with those picked up, using the unique Biotrack bar code identifier of each individual container. When all containers associated with a particular shipping manifest have been processed, an invoice is generated which notifies the generator of the charges payable for Stericycle's services and certifies that all containers identified on that manifest have been processed. An example of Stericycle's standard invoice and certification is attached hereto as Exhibit MP-8.

20. The original shipping manifest for each generator pickup accompanies the waste to the processing facility and is signed by a representative of the processing facility on receipt of the waste. In the case of the Morton facility, the manifest is retained by the facility. In the case of waste incinerated at the North Salt Lake facility, a copy of the signed manifest is returned to Stericycle. A copy of the signed shipping manifest is made available to the generator on request. In addition, as described above, Stericycle's computerized bar code tracking system generates an electronic record of the containers picked up, transferred and processed and reports can be generated from this data by customer and time period. Stericycle makes such reports available to its customers on request. An example of a computer-generated Container Detail Report for one Washington hospital in June 2004 is attached hereto as Exhibit MP-9.

Recycling/Reuse

21. Over the years, Stericycle has made various efforts to develop a cost-effective way to recycle plastics from the sharps waste stream. The majority of the potentially reusable plastics from this waste stream consists of the sharps container itself. In 2003, Stericycle began offering a new service to Washington generators of sharps waste, called the "Biosystems®" program. Rather than attempting to extract reusable plastics from the sharps waste stream after processing, the Biosystems program offers generators the opportunity to substantially reduce their plastics waste by reusing their sharps containers. Thus, instead of extracting plastics from the waste stream after processing and then reprocessing it for incorporation into new products, the Biosystems program achieves the same benefit on a more cost-effective basis by enabling generators to reuse the sharps containers that make up the bulk of the reusable plastics waste in the sharps waste stream. By permitting the reuse of sharps containers, the Biosystems program enables Washington generators to significantly reduce the amount of their plastics waste,

substantially eliminating the plastics represented by single-use sharps containers. Stericycle customers can also eliminate a portion of the substantial expense previously incurred for single-use sharps containers. A copy of promotional materials describing the Bioystems program are attached hereto as Exhibit MP-10.

22. The FDA classifies sharps containers as Class II medical devices and sets certain requirements applicable to the processing of such containers for reuse. To meet the FDA's requirements, Stericycle, Inc. has developed an automated processing and wash line for use with specially designed, reusable sharps containers and has installed this line at several of its processing facilities around the United States, at a cost of many millions of dollars. The Biosystems program offers the first truly cost effective plastics "recycling" opportunity for generators of medical waste. At a cost less than what would be required to buy new single-use sharps containers, generators will be able to "recycle" their sharps containers repeatedly for reuse. Stericycle began offering the Biosystems program to Washington generators in 2003. Currently, Stericycle uses a wash line in California for decontamination of reusable sharps containers offered to Washington generators but intends to add a Biosystems wash line at the Morton facility with construction beginning by the end of this year.

Mail-back Programs

23. Stericycle offers both scheduled and on-call service to its customers. Typically, generators of large quantities of biomedical waste receive regular, scheduled service. Generators of smaller quantities of waste may schedule less frequent pickups or use on-call service. Stericycle also offers the Stericycle, Inc. "mail-back" program for small quantity generators who wish to avoid the costs of having a Stericycle vehicle and driver call at the generator's facility. A copy of materials describing the Stericycle, Inc. "mail-back" program are attached hereto as

Exhibit MP-11. Under this program, generators of small quantities of biomedical waste purchase prepaid shipping containers and ship their wastes to Stericycle, Inc. through the U.S. Postal Service. Through its scheduled, on-call and mail-back services, Stericycle is able to provide cost-effective biomedical waste collection and disposal services to all types and all sizes of biomedical waste generators throughout the state of Washington.

24. Stericycle also offers Stericycle, Inc.'s program for the recycling of mercury and dental amalgam wastes to dentists and other dental practitioners. Copies of materials describing this program are attached as Exhibit MP-12. Under this program, generators of such waste purchase prepaid Federal Express Corporation shipping containers from Stericycle, Inc. and ship their wastes to Stericycle, Inc. for recycling.

25. Recently, Stericycle has also begun offering a new Stericycle, Inc. program for disposal of waste pharmaceutical products, called "Direct Returns." Copies of materials describing this program are attached as Exhibit MP-13.

Washington Customers Served by Stericycle

26. Stericycle serves almost 6,000 generators of biomedical waste throughout the state of Washington. A copy of Stericycle's 2003 Annual Report to the Commission is attached hereto as Exhibit MP-14.

27. The following table shows the numbers of small quantity generators ("SQGs") and large quantity generators ("LQGs") served by Stericycle in Washington in 2003 and the number of stops, number of containers of waste and revenues associated with Stericycle's services to the customers in each category:

	Customers	Stops	Containers	Revenues
LQG	140	6,878	323,874	$4,197,035
SQG	5,803	55,279	138,911	$3,018,085
	5,943	62,157	462,785	$7,215,120

For this purpose, a customer whose average monthly charges are $1,000 or more is categorized as an LQG and all other customers are categorized as SQGs. Additional data concerning Stericycle's revenues and expenses for its biomedical waste collection services to Washington generators in 2003 and expenses incurred and number of containers processed by Stericycle, Inc. in 2003 are set out in the tables attached hereto as Exhibit MP-15.

28. In addition to the customers served directly by Stericycle, Stericycle, Inc. served 74 Washington generators through its medical waste mail-back program in 2003.

29. Stericycle itself has invested more than $1.5 million in the equipment, containers and supplies it uses in serving Washington generators. In addition, Stericycle, Inc. has invested over $2.5 million in the development of its biomedical waste processing facility at Morton, Washington. In connection with the Biosystems program for re-usable sharps containers, Stericycle, Inc. is in the process of investing another $1.2 million at Morton to build a processing and container wash facility that will allow reusable sharps containers to be emptied, washed and disinfected in accordance with the requirements of the FDA.

Response to Kleen

30. The prefiled testimony of Kenneth Lee, Robert Olson, Darin Perrolaz and Allen McCloskey makes clear that Kleen Environmental Technologies, Inc. ("Kleen") does not have the knowledge, the experience or the resources to provide reliable biomedical waste collection services to Washington generators statewide.

31. Kleen has no significant transportation experience and no experience in the handling of infectious medical waste. As Kleen's prefiled testimony makes clear, Kleen's primary existing business involves assessing and cleaning up hazardous waste regulated under the federal Resource Conservation and Recovery Act ("RCRA"). Kleen's promotional materials and its responses to Stericycle's Data Requests indicate that Kleen has also engaged in the transportation and disposal of hazardous wastes, a solid waste collection service subject to regulation by the Commission under RCW Chapter 81.77. Nonetheless, since Kleen only operates one 24 ft. van, it is clear that any transportation services provided in connection with Kleen's existing business are minor and than Kleen has no significant transportation experience. Although a recent Commission Staff investigation concluded that "the majority of the collection and transportation of hazardous waste provided by KET is incidental to the company providing site remediation and cleanup service," Kleen's responses to Stericycle's Data Requests and the representations made by Kleen in its promotional materials suggest that Kleen has held itself out to the public and has performed services as a solid waste collection company without a certificate in violation of RCW 81.77.040 and the Commission's regulations. A copy of a letter from the Commission Staff reporting the results of its investigation of Kleen, a Commission Staff Memorandum and related materials are attached hereto as Exhibit MP-16. As indicated in these materials, the Commission Staff investigation did conclude that Kleen had unlawfully transported recyclable materials (dental x-ray fixer, PCB ballast and batteries) without an intrastate motor carrier permit. Although Kleen obtained the required motor carrier permit in response to the Staff investigation (see Application for Permit -- Intrastate Common Carrier Operating Authority, dated July 20, 2004 and Intrastate Common Carrier Permit dated July 28, 2004 attached hereto as Exhibit MP-17), Kleen's failure to meet the requirements of the law and

Commission regulations applicable to its transportation services, minor though these transportation services were, indicate an ignorance and/or disregard for applicable transportation regulations that are not acceptable from a company that wants to be involved in the collection and transportation of infectious medical waste. Here, even in the case of the minor transportation services previously provided by Kleen, the record shows that Kleen has disregarded the legal requirements applicable to its business.

32. The Kleen personnel who would be responsible for its proposed biomedical waste collection services have no training or experience with transportation, biomedical waste, the statutes and regulations governing transportation or the handling of biomedical waste or the public health issues involved in handling biomedical waste.

33. Kleen has provided no marketing or operating plans to demonstrate that it has either the intention or the ability to provide service throughout the state or in any significant portion of it. Kleen has not proposed to base transportation equipment or personnel in any location except Seattle. It is patently impossible to serve generators in eastern Washington from a Seattle base at a profit, given the rates in Kleen's proposed tariff. This is in part because service to much of eastern Washington from Seattle, regardless of how minimal, will require a Seattle-based driver to spend at least two days and one overnight on the route in order to comply with DOT hours of service regulations. This is simply not economically practical.

34. The pro forma financial projections filed by Kleen (Exhibit KRL-5, attached to the Prefiled Testimony of Kenneth Lee) are completely unrealistic. Kleen's financial projections assume that Kleen will limit its services to high volume, high revenue customers. Kleen's projections thus radically overestimate potential revenues per customer for a statewide service which, by law, must be made available to all types and sizes of generators. Kleen's financial

projections demonstrate Kleen's intention to follow a "cream-skimming" strategy and do not provide an adequate basis to assess the likely costs and revenues of the proposed service. Kleen's financial projections fail to demonstrate the feasibility of a biomedical waste collection service that by law must serve the State's entire generator community, not just large quantity generators.

35. Kleen's pro forma projections are based on the assumption that each of Kleen's customers will deliver 60 32-gal. containers of waste to Kleen per month, generating revenues of $1,106.40/customer/month. However, Stericycle's experience serving almost 6,000 Washington generators throughout the state in the first half of 2004 was that over 97% of its customers were small quantity generators that generated revenues of less than $1,000/month. In 2003, Stericycle's average monthly revenue per customer was $107.73. This monthly revenue figure is a much more likely approximation of the revenues Kleen would earn in providing statewide biomedical waste collection services. If it is assumed that Kleen has correctly projected the number of customers it would serve and that its customers would be representative of the Washington generator population now served by Stericycle, then the revenues that Kleen would earn in the first 12 months of the proposed service would be less than one-tenth what Kleen has assumed in its financial projections (Exhibit KRL-5). Using Kleen's projections for the number of customers it would serve in its first 12 months and Stericycle's data for average monthly revenue per customer, Kleen's total revenues would be approximately $38,460 and Kleen would show an operating loss of almost $250,000 for the year. Kleen's revenue and profit projections rely entirely on the assumption that Kleen's customers will all be large-quantity, high-revenue generators and, as such, unrepresentative of the state's population of biomedical waste generators

as a whole. In short, Kleen's revenue and profit projections are based on an unlawful cream skimming strategy that would not be permitted by the Commission.

36. The flaws in Kleen's revenue assumptions can be illustrated by other comparisons to Stericycle data. Thus, Kleen assumes revenue per pickup of $276.60 and 15 containers per pickup, whereas Stericycle's average revenue per pickup in 2003 was $116.09, less than half the amount assumed by Kleen, with an average of about 7.4 containers per pickup. If Stericycle's average revenue per pickup figure is substituted for the revenue per pickup assumed in Kleen's projections, then Kleen's revenues for the first 12 months would be reduced from $397,345 (adjusting for the addition errors in Kleen's pro forma) to approximately $166,000. Even if Kleen's disposal costs are also reduced to reflect Stericycle's average containers per pickup (7.4 vs. 15 projected by Kleen), Kleen would show an operating loss of approximately $93,000 for the first 12 months of operation and substantial continuing losses thereafter.

37. Kleen's financial projections totally omit the cost impact of service features that Kleen relies on to distinguish its proposed service from the service provided by Stericycle. Thus, for example, Kleen's projections do not include the transportation and processing costs Kleen would incur for processing and disposal using the Hospital Sterilization Services, Inc. "hydroclave" facility in Port Coquitlam, British Columbia. Similarly, although the Prefiled Testimony of Allen McCloskey at p. 2 suggests that Kleen will offer its customers "an online interactive generator profile system that will allow generators to review various documents associated with their waste, e.g., manifests, certificates of destruction, invoices, weight tickets, and any other documents associated with the transporting and disposal of their waste," Kleen's financial projections do not include the cost of developing such an "interactive" internet based system. Although the Prefiled Testimony of Darin Perrollaz at p. 2 indicates that Kleen

personnel will "package" a generator's waste if requested and Supplement No. 7 to Kleen's proposed tariff specifies a charge of $48.50/hour for "[o]n-site packaging services," Kleen's projections include neither projected costs nor projected revenues for such services. Kleen's financial projections underestimate the costs of providing a statewide biomedical waste collection service with the service features identified by Kleen with two trucks based in Seattle. Kleen's financial projections for the proposed service do not meet the minimum standards for the statements of costs and assets required by RCW 81.77.040 and do not provide a basis for concluding that the proposed service is financially feasible or that Kleen is financially fit to provide the proposed service.

38. Kleen's proposed "online interactive generator profile system" that would purportedly allow generators to review various shipping and account information on the internet is not practical for most generators. It is Stericycle's experience with other products that depend on updating through the internet that the great majority of small quantity generators do not have internet access at their places of business. Thus, posting shipping documents and information on-line would be of no value to the great majority of Washington generators. A biomedical waste collection company serving the entire state could not base its systems on such a program. Further, Kleen's proposal to update generator account information by means of cellular or other wireless communication technology is impractical because of gaps in the systems available for such communications in various parts of the state.

39. Kleen's existing business does not have sufficient current assets or cash flow to fund the start-up costs and operating deficits that are foreseeable for a new entrant into the highly regulated and highly specialized medical waste collection business. While Kleen purportedly had an average of about $100,000 in cash and cash equivalents on hand at the end of the last

three fiscal years, a substantial amount of that cash is obviously needed for working capital in Kleen's existing project-oriented business. In the absence of other sources of funds to buffer cash flow problems resulting from a downturn in revenues or collection difficulties, a significant cash reserve is prudent -- as Kleen's shareholders have evidently concluded.

40. Kleen has provided misleading testimony concerning its intention to offer a "hydroclave" processing option to Washington generators at a processing facility operated by Hospital Sterilization Services, Inc. ("HSS") in Port Coquitlam, British Columbia. Kleen has provided no evidence that it has a contract for access to the HSS hydroclave facility or that HSS has agreed to accept waste from Kleen. Kleen has provided no data with respect to the processing costs it would incur at the HSS hydroclave facility and no projections of the costs Kleen would incur to transport Washington waste across the Canadian border to that facility. Allen McCloskey's prefiled testimony reveals that, in fact, Kleen has no intention to process any significant quantity of waste at the HSS hydroclave facility. McCloskey's testimony indicates that, in fact, any biomedical waste handled by Kleen "will likely be transported to Covanta Energy waste-to-energy facility in Brooks, Oregon." Exhibit AM-1T at p. 7. The only disposal contract that Kleen has offered with its prefiled testimony in this proceeding is a contract for processing at Covanta. See Exhibit AM-2 ("Exhibit A") attached to the Prefiled Testimony of Allen McCloskey. The disposal costs presented in Kleen's financial projections -- $200/ton or $.10/lb. are the costs of disposal at Covanta; no transportation, processing or disposal costs are provided for use of the HSS hydroclave facility. Kleen's testimony is misleading concerning its intentions with respect to the use of the hydroclave facility for waste processing. In any event, Kleen has provided no evidence to establish the cost of a service based on processing at the HSS hydroclave facility in Canada.

41. Stericycle is familiar with the HSS hydroclave facility in Port Coquitlam, B.C. Stericycle has provided biomedical waste collection services to generators of biomedical waste in British Columbia, Canada for many years and continues to provide such services. In conjunction with Stericycle's services in British Columbia and in the U.S. Pacific Northwest, I have toured the HSS facility and met with HSS representatives. For the following reasons among others, use of the HSS hydroclave facility by Kleen is not practically or economically feasible and would be disadvantageous to Washington generators:

(a) The technology employed by the HSS hydroclave facility offers no advantages over the ETD and autoclave technologies used at the Stericycle, Inc. facility in Morton, Washington. The hydroclave technology, like the ETD and autoclave technologies currently used by Stericycle, processes biomedical waste by heating the waste to a temperature that kills pathogens in the waste. The ETD and autoclave technologies used by Stericycle at Morton both achieve the 10 log 6 level of sterilization efficacy claimed for the hydroclave technology -- a "kill" rate of 99.9999%. The efficacy of the Stericycle processing operations at Morton are tested and confirmed by bacterial spore tests evaluated by an independent testing laboratory. The ETD and autoclave processes used at Morton have been repeatedly proven effective to render biomedical waste non-infectious in accordance with the applicable requirements of the Washington Department of Health, the Washington Department of Ecology and the Lewis County Health Department.

(b) HSS offered Stericycle the rate of CDN$0.36 to process and/or arrange disposal of all components of the biomedical waste stream (CDN$0.33 if no path/chemo wastes were included). At current exchange rates (1CDN$ = U.S.$0.7745), this is about U.S.$0.28/lb. --

almost three times the cost of incineration at Covanta -- the disposal cost on which Kleen's pro forma financial projections are based.

(c) The use of the HSS processing facility would require most Washington generators to use (and pay for) shipment of their biomedical waste in more shipping containers, substantially increasing their costs, because HSS requires that sharps waste must be segregated from other types of biomedical waste it processes and separately packaged. Provincial landfill restrictions require that sharps waste must be landfilled in special facilities under stringent conditions not applicable to other types of biomedical waste . These restrictions on the landfilling of sharps waste add significant cost to the disposal of such waste. For this reason, HSS requires that sharps waste delivered to it must be segregated from other types of the biomedical waste. Most Washington biomedical waste generators generate sharps waste in addition to general biomedical waste. Stericycle does not require the segregation of sharps waste from general biomedical waste. Since generators would pay for biomedical waste collection and disposal services on a "per container" basis under the tariff proposed by Kleen (as they do under Stericycle's tariff), the HSS requirement that generators segregate their sharps waste from other components of the general biomedical waste stream would substantially increase the charges payable by Washington generators to Kleen for biomedical waste collection service, compared to what they now pay Stericycle for such service. For many generators, the HSS requirement to use two containers, where Stericycle would permit consolidation of the waste in a single container, would double the generator's costs. The additional waste segregation requirements imposed by HSS would also require added handling of the waste by generator personnel, increasing their risk of exposure to infectious substances.

(d) Kleen has provided no evidence to demonstrate that HSS is willing or has the capacity to process the biomedical waste produced by Washington generators. As noted above, Stericycle collects an average of approximately 1,000,000 lbs. of biomedical waste each month from Washington generators. When I investigated the HSS facility, I was informed that the capacity of the HSS facility is limited by the permit under which it operates as well as the existing configuration of its equipment, and that at that time the facility had less than 200,000 lbs. per month of unused capacity, although HSS refused to say exactly what its unused capacity was. Kleen has provided no information about HSS' capacity to handle waste produced by Washington generators. Even if HSS had the capacity to handle 200,000 lbs. of Washington waste per month, this would still be only about 20% of the biomedical waste that Stericycle currently collects from Washington generators each month. Thus, HSS clearly does not have the capacity to handle a large part of the biomedical waste produced by Washington generators, although its actual capacity to accept additional waste from Washington generators is unknown. It is telling that Kleen has provided no testimony or other evidence from any representative of HSS to demonstrate that HSS is willing or able to handle a significant amount of biomedical waste from Washington generators.

(e) The HSS hydroclave facility is not an adequate backup facility for biomedical waste normally routed to the Covanta incinerator for disposal, nor is the Covanta facility an adequate backup for the HSS facility. I am familiar with the Covanta incinerator facility in Brooks, Oregon, a owned by Marion County and operated by Covanta. Until 2003, Stericycle used Covanta for incineration of Washington-origin path/chemo waste. Stericycle continues to use Covanta for incineration of some Oregon-origin path/chemo waste. Covanta has no tub washing facilities and therefore can only accept biomedical waste packaged in cardboard boxes.

Waste packaged for incineration at Covanta does not need to be segregated. Under the tariff proposed by Kleen, generators would minimize their charges for waste destined for Covanta by combining their wastes and minimizing the number of containers shipped. However, if the Covanta facility is unavailable, unsegregated waste packaged for incineration at Covanta could not be processed at HSS, because the unsegregated waste would not meet HSS' waste segregation requirements (requiring segregation of sharps waste for separate processing and segregation of path/chemo waste which HSS does not process but sends to Alberta for incineration). Similarly, since Covanta has no facilities for washing and disinfecting reusable tubs, Covanta could not process waste packaged in reusable tubs for processing at HSS. In short, waste packaged for processing at HSS is incompatible with processing at Covanta and waste packaged for processing at Covanta is incompatible with processing at HSS. Thus, neither facility can serve as a backup facility for the other. If Kleen does intend to process waste at both Covanta and HSS, Kleen is proposing to use two incompatible processing alternatives and has no backup processing facility for either of them. Since all processing facilities shut down from time to time as a result of scheduled maintenance, replacement or upgrading of major components or mechanical failure, the absence of a backup processing facility would periodically disrupt service to Kleen's customers and would likely cause Kleen to violate applicable laws governing the storage of biomedical waste.

(f) For the same reasons outlined in the proceeding paragraph, Kleen's suggestion that its customers would be able to designate waste for processing at either HSS or Covanta would substantially increase the logistical complexity and costs of Kleen's proposed service, yet Kleen's financial projections entirely fail to take these added costs into account. Thus, for example, the Prefiled Testimony of Allen McCloskey (Exhibit AM-1T) at p. 7 suggests that "the

waste constituencies and the preference of the generator" will determine whether some portion of the waste collected by Kleen will be transported to HSS for processing. However, if this is the case, then Kleen will be required either to store quantities of waste for lengthy periods prior to processing and disposal or to transport less-than-truckload quantities of waste to the processing facilities. Further, Kleen will be required to purchase, hold in inventory and make available to its customers all of the container types appropriate for each processing technology. None of these costs are reflected in Kleen's pro forma projections.

(g) The limits of the HSS tub washing equipment would restrict the container sizes that generators may use. The largest reusable tub that HSS wash system can handle is 28 gallons. Accordingly, Kleen's customers would be limited to reusable containers of 28 gallons or smaller and would lose the ability to use the 32 gallon, 40 gallon or 48 gallon reusable containers that they are currently offered by Stericycle.

(h) Neither HSS nor Covanta offers a processing line for dumping, washing and disinfecting reusable sharps containers. Accordingly, the option for generators to use reusable sharps containers, greatly reducing the amount of their plastics waste, which Stericycle offers to Washington generators through its Biosystems program, is not available through Kleen, HSS or Covanta.

42. If the biomedical waste that Kleen proposes to collect is transported to Covanta for incineration, as Kleen's financial projections and Allen McCloskey's prefiled testimony indicate, then the service proposed by Kleen would be distinctly inferior to the service offered by Stericycle for the following reasons among others:

(a) Covanta is a solid waste incinerator. Its processes produce air emissions and incinerator ash that are environmentally problematic. Biomedical waste generators in

Washington and throughout the United States have increasingly demanded alternatives to incineration for processing their waste. "[T]here is an increasing concern over the environmental impact of the traditional method of burning such waste. Increasingly, across North America and beyond, methods are sought to treat and dispose of biomedical and other infectious waste without incineration." Prefiled Testimony of Richard Vanderwal, Exhibit RV-2 ("Exhibit A") at Section 1. One of the reasons Washington generators supported Stericycle's application for authority to operate as a biomedical waste collection company was that Stericycle offered non-incinerative alternatives for processing biomedical waste. Kleen's proposal to use the Covanta incinerator as the primary means for disposal of the biomedical waste it wishes to handle is a proposal to take Washington generators backwards to a waste disposal method that is inferior to the primary waste disposal methods used by Stericycle. In relying on incineration of general biomedical waste, Kleen's proposal relies on a disposal method that has been rejected by most Washington generators because of its environmental impacts.

(b) Covanta does not have tub washing and disinfecting facilities. Covanta cannot accommodate the type of leak-proof, puncture resistant, reusable plastic shipping containers offered by Stericycle and favored by most Washington generators for storing and shipping their biomedical wastes. Kleen would force its customers to use cardboard boxes. Cardboard boxes are inferior containers for storage and shipment of biomedical waste for many reasons, including the following: (i) Cardboard boxes are more susceptible to leakage, puncturing and crushing than reusable plastic tubs. Because they are susceptible to leakage, puncturing and crushing, cardboard boxes pose a greater danger to generator and transporter personnel of exposure to infectious substances. These are both safety and liability issues for generators. (ii) Cardboard boxes have lower maximum weight limits than reusable plastic containers. As Item 15 of

Kleen's proposed tariff indicates, a 33 gallon medium/large cardboard box has a maximum weight limit of 40 lbs., whereas the similarly sized 32 gallon medium/large tub has a maximum weight limit of 60 lbs. Because of this maximum weight difference, a generator can pack 50% more waste into a reusable plastic container than into a cardboard box of comparable size. Because Kleen's proposed tariff charges under Item 30 are similar for cardboard and plastic containers of similar size (e.g., $18.48 per 33-gal. medium/large cardboard box and $18.44 per 32-gal. medium/large tub on a pickup consisting of 15 containers), the effect of forcing generators to use cardboard boxes will be to increase their charges by up to 50% over what they are now paying under Stericycle's similar Item 30. This would also be the result under Kleen's proposed Item 90, setting rates for path/chemo waste. Kleen customers would be forced to use a cardboard box with a 40 lb. weight limit for a flat charge of $30/box and would not be permitted to use the 28 gal. medium/large tub which is also rated at $30 but has a weight limit of 60 lbs. Because all of Stericycle's processing facilities, including the North Salt Lake incinerator, have tub wash and disinfection facilities, Stericycle customers can use reusable plastic containers for all of their biomedical wastes, including path/chemo. (iii) Single use cardboard boxes add unnecessarily to the waste stream. Use of such disposable packaging materials is inconsistent with the objectives of most generators to reduce the amount of their waste. By proposing a service that depends upon single use cardboard boxes for storage and shipment of waste and incineration for disposal, Kleen is proposing a medical waste collection service that is markedly inferior to Stericycle's existing service.

(c) Covanta representatives will not sign a biomedical waste manifest or certify receipt or destruction of particular containers of biomedical waste. The only evidence that Covanta will provide to indicate that it has received biomedical waste from a transporter is a

weight ticket, recording the weight of the waste delivered by the transporter on a particular day. Thus, a generator can obtain no evidence or other assurance from Covanta that the generator's particular waste containers have been delivered to or processed by Covanta. Unlike the processing facilities used by Stericycle, Covanta is not equipped with Biotrack or other bar code scanners that make a record of each individual waste container as it passes through the processing line or into the incinerator.

(d) The Covanta incinerator was not designed and built to process biomedical waste. Accordingly, its in-feed system is inferior to the systems in place at Stericycle's processing facilities. Covanta's conveyor belt in-feed system frequently jams and spews biomedical waste containers off the conveyor and onto the ground, potentially endangering Covanta and transporter personnel. Covanta requires all biomedical waste it processes to be loaded onto its in-feed conveyor by the transporter's driver and further requires that all spills from the conveyor be cleaned up by the driver. These activities require a driver to expend considerable time at the Covanta facility and potentially expose the driver to infectious substances.

43. As noted above, Stericycle collects an average of about 1,000,000 lbs. of biomedical waste each month from Washington generators. To minimize harmful air emissions from the burning of medical waste, Marion County currently limits the Covanta incinerator facility to processing 3,000,000 lbs (1,500 tons) of biomedical waste per year or an average of 250,000 lbs. per month. In 2003, the Covanta facility processed approximately 162,000 lbs. of biomedical waste per month, leaving an unused capacity of only 88,000 lbs. per month -- less than 10% of the biomedical waste collected by Stericycle from Washington generators each month. A copy of a table from the 2003 Annual Report of the Marion County Department of Public Works, Environmental Services -- available on the Marion County web site at

http://publicworks.co.marion.or.us/es/PDF/2003%20annual%20report.pdf -- is attached hereto as Exhibit MP-18. The Covanta incinerator facility does not have the unused capacity that would permit it to process more than about 10% of the biomedical waste generated by Washington generators.

44. Stericycle presently pays the following license fees in connection with its statewide service that Kleen would also have to pay:

King County Biomedical Waste Transporter fee	$ 448
Kitsap County Health Department fee	150
Seattle Commercial Loading zone fee	120
Spokane Infectious Waste Collection Permit	1,000
Total:	$1,718

45. The mileage required to transport medical waste to the HSS facility in Port Coquitlam, B.C. from Seattle is 272 miles. At 272 miles per trip, traveling at 50 miles per hour, driving time each way to HSS and back would be 5.44 hours. An average of approximately one hour would be spent crossing the border each way. A minimum of at least 3 hours would be required to unload at HSS and observe the processing of the waste. Because of the time involved, the driver would be required to overnight in Canada on each trip, resulting in additional costs for food and lodging of at least $90 per trip.

46. We recently obtained a written quotation from a reputable property and casualty insurance broker for commercial automobile liability and commercial general liability insurance coverage for a new medical waste collection business, as proposed by Kleen. A copy of the quotation is attached hereto as Exhibit MP-19. The premiums quoted for $1,000,000 of coverage were $7,500 to $15,000 for commercial general liability and $3,000 to $4,500 per vehicle for commercial auto liability.

47. Stericycle is ready, willing and able to serve the biomedical waste collection needs of all generators of such waste in the state of Washington. Attached hereto as Exhibit MP-20 is a table showing by county and zip code all of the biomedical waste generators served by Stericycle in the first half of 2004. This data demonstrates that Stericycle is fully meeting its obligations as a biomedical waste collection company to serve all types and sizes of generators throughout the state.

47. Although Stericycle makes every effort to operate efficiently and in a manner that will allow it to earn a profit on its services to all segments of the generator community and in all parts of the state of Washington, Stericycle's profit margin is highest -- because its costs of operation per container handled are lowest -- in serving large quantity generators. Further, because Stericycle's rates do not take into account the higher costs per unit of service to small generators in the less populous counties, Stericycle undoubtedly loses money on service to small quantity generators in some parts of the state, particularly in eastern Washington. If Kleen is allowed to erode Stericycle's LQG customer base, as Kleen proposes, Stericycle's overall profitability will be seriously and adversely affected and Stericycle will almost certainly be forced either to cut back its service to smaller generators in the less populous regions of the state or to significantly increase its rates.

DATED this 17th day of September, 2004.

Michael Philpott

Stericycle of Washington Testimony location
September 2004 Kleen hearing

item	location	number	Testimony by:
Revenue	NW – Note 1	$ 7,215,120	NW – Annual report
# of containers	NW – Note 2	462,785	Mike Philpott
Stops	NW – Note 3	62,151	Mike Philpott
Customers	NW – Note 4	5,889	NW – Annual report
# of LQG cust. & cont.	NW – Note 4	140 & 323,874	Mike Philpott
# of SQG cust. & cont.	NW – Note 4	5,803 & 138,911	Mike Philpott
Miles	NW – Note 5	457,108	NW – Annual report
Public Utility tax	NW – Note 7	.642%	?
Truck operating costs	NW – Note 8	$ 178,278	Mike Philpott
Route Trans Admin cost	NW – Note 9	$ 86,203	Mike Philpott
Route trans Mngt cost	NW – Note 9	$ 58,861	Mike Philpott
Mileage & labor hours	NW – Note 10 & 15	272 miles at 50 mph	Don Wilson
Hydroclave cost	NW – Note 14	$.33Cnd/lb	Mike Philpott
Cost at Covanta per ton	NW – Note 16	$200/ton	Mike Philpott
Driver meals & lodging	NW – Note 17	$90.00 per day	Don Wilson
Licenses & fees	NW – Note 18	$2,718 total	Chris Stromerson
Liability insurance	NW – Note 19	$10,500-$19,500	Insurance agent ?
Total containers processed at Morton 2003	Effect of diversion	704,408	table Mike Philpott
Total operating costs at Morton – 2003	Effect of diversion	$ 3,686,715	Mike Philpott
Morton disposal fee to Stericycle of WA	Effect of diversion	$ 5.46 per container	Mike Philpott
Certain Morton operating costs:	Effect of diversion		Mike Philpott
Boxes, liners, bags		$ 125,199	Mike Philpott
3rd party hauling		103,004	Mike Philpott
Fuel and oil		490	Mike Philpott
Equipment rental		3,559	Mike Philpott
Total long haul compensation		236,301	Mike Philpott
Disposal – post		373,049	Mike Philpott
Direct Labor		474,745	Mike Philpott
Fringes		228,388	Mike Philpott
Workman's compensation		55,833	Mike Philpott

EXHIBIT MP-2

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

For the Operation of Motor Propelled Vehicles

pursuant to the provisions of Chapter 81 RCW

THIS IS TO CERTIFY that authority is granted to operate as a MOTOR CARRIER in the transportation of the commodities and in the territory described herein to

STERICYCLE OF WASHINGTON, INC.
258 SW 43RD STREET SUITE M-B
RENTON, WASHINGTON 98055

Cert No.
G-244

CORRECTED
Solid Waste consisting of biohazardous or biomedical wastes in the state of Washington.

Solid Waste from the facilities of Stericycle, Inc., for disposal.

M. V. G. NO. 1876

12-07-99

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

By Carole J. Washburn