



**UTC**

Washington Utilities  
and Transportation  
Commission

**Mike Young  
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**Regulatory Services  
Division**

**Water and  
Transportation Section**

*Mission Statement:*

*The UTC protects the people of Washington by ensuring that utility and transportation services are safe, available, reliable, and fairly priced.*



# The Commission

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Washington Utilities and Transportation Commission



# Who is the UTC?

## The Commissioners

- Appointed by the Governor
- Confirmed by the State Senate
- Staggered 6-year terms

## The Commission Staff

- Accountants/Analysts/Economists
- Attorneys/Administrative Law Judges
- Consumer Specialists
- Inspectors/Investigators
- Other Supporting Staff



Chairman  
David Danner



Commissioner  
Ann Rendahl



Commissioner  
Milt Doumit



# Who the UTC Regulates

## 500 utility companies:

- 400+ Telecommunications companies
- 3 Electricity companies
- 4 Natural gas distribution companies
- 49 Water companies

## 4,752 transportation companies:

- **61 Solid & medical waste collectors**
- 252 Moving companies
- 195 air-porter, non-profit, charter and excursion companies
- 7 Private Commercial Passenger Ferries
- 4,435 Trucking firms (permit and insurance only)
- 32 Railroads
- 28 Pipeline Operators



# As Economic Regulators

**Regulates Sanctioned Natural Monopolies** – Industries where a single company can provide service at a lower cost than a competitive environment.

## **Regulation includes:**

- Replacing “competition” through setting **Fair, Just, Reasonable, and Sufficient** rates.
- Requiring compliance with rules, laws, and the company tariff.
- Limiting entry to industries



# Statutory Authority

Revised Code of Washington (RCW) **80.01.040** instructs the Commission to “exercise all powers and all duties prescribed... by Title 81 RCW” and to “make rules and regulations necessary to carry out its other powers and duties.”

**RCW Title 81** defines the Commission’s authority to regulate transportation companies.

- **RCW Chapter 81.77** covers Solid Waste Companies.

Washington Administrative Code (**WAC**) **Title 480** are the Commission’s rules to fulfill the RCW’s.

- **WAC Chapter 480-70** are Solid Waste specific rules.



# Statutory Authority Part II

## **RCW 81.77.030 Supervision and regulation by the commission**

The commission shall supervise and regulate every solid waste collection company in this state,

- (1) By fixing and altering its rates, charges, classifications, rules and regulations;
- (2) By regulating the accounts, service, and safety of operations;
- (3) By requiring the filing of annual and other reports and data;
- (4) By supervising and regulating such persons or companies in all other matters affecting the relationship between them and the public which they serve;
- (5) By requiring *compliance with local solid waste management plans* and related implementation ordinances;
- (6) By requiring certificate holders under chapter **81.77** RCW to use rate structures and billing systems consistent with the solid waste management priorities set forth under RCW **70A.205.005** and the minimum levels of solid waste collection and recycling services pursuant to local comprehensive solid waste management plans. The commission may order consolidated billing and provide for reasonable and necessary expenses to be paid to the administering company if more than one certificate is granted in an area.



# Statutory Authority Part III

## **RCW 81.77.010 Definitions**

(7) "Solid waste" means the same as defined under RCW 70A.205.015, except for the purposes of this chapter solid waste does not include recyclable materials except for source separated recyclable materials collected from residences;

(8) "Solid waste collection" does not include collecting or transporting recyclable materials from a drop-box or recycling buy-back center, or collecting or transporting recyclable materials by or on behalf of a commercial or industrial generator of recyclable materials to a recycler for use or reclamation. Transportation of these materials is regulated under chapter 81.80 RCW;

(9) "Solid waste collection company" means every person or his or her lessees, receivers, or trustees, owning, controlling, operating, or managing vehicles used in the business of transporting solid waste for collection or disposal, or both, for compensation, except septic tank pumpers, over any public highway in this state as a "common carrier" or as a "contract carrier"; and





# Statutory Authority Part IV

## **RCW 81.77.040 Certificate of convenience and necessity required**

A solid waste collection company shall not operate for the hauling of solid waste for compensation without first having obtained from the commission a certificate declaring that public convenience and necessity require such operation. Operating for the hauling of solid waste for compensation includes advertising, soliciting, offering, or entering into an agreement to provide that service. To operate a solid waste collection company in the unincorporated areas of a county, the company must comply with the solid waste management plan prepared under chapter 70A.205 RCW in the company's franchise area....

...When an applicant requests a certificate to operate in a territory already served by a certificate holder under this chapter, the commission may, after notice and an opportunity for a hearing, issue the certificate only if the existing solid waste collection company or companies serving the territory will not provide service to the satisfaction of the commission or if the existing solid waste collection company does not object.



# Rate Setting

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What happens you submit a case.



# Changing Rates - Process Overview

## The Commission receives a filing:

Staff assigned and checks compliance with WAC and dockets filing.

- **Docketing** - Formally recognizing and cataloging a submission.
- **Filing** - A submitted legal document or application to be placed on record by the Commission.

Staff reviews the case information in-depth.

- Adjusts results based on rules, policies, and practices to determine fair, just, reasonable, and sufficient revenue requirement. Presents to company for agreement.
- Staff and Company design rates to recover revenue requirement.

Staff presents results at Open Meeting to Commissioners for decision.

New Rates go into effect.

# Models and Tools

## Rate Setting Models:

### Price-Out Model

- A simplified model setting collection rates by percentage increase.

### Cost of Service Model

- An extensive model setting collection rates by allocation of costs based on factors such as time and weight.



# Basic Calculation of Revenue

## Revenue = Cost

### Operating Costs

Collection Costs

Supplies

Repairs

Office Support

Rent/Utilities

+

### Capital Plant Costs

Collection Vehicles

Containers

Structures

Shop Equipment

+

### Cost of Money

Return on Equity

Loan Interest

90 to 93% Expenses

|

7 to 10% Return



# Basic Calculation of Revenue Part II

## Collection Costs

<b>Direct Costs</b>	<b>+</b>	<b>Indirect Costs</b>	<b>+</b>	<b>Processing</b>
Wages & Benefits		Management		Cost to process
Fuel, oil, tires		Customer Costs		Plus: Disposal
Equipment		Facilities Costs		Less: Revenue
Depreciation		Insurance Taxes and Fees		from sale of material



# Capital Asset Value vs. Cost

**Capital Asset VALUE is shown on the Balance Sheet.**

- Original Cost - Accumulated Depreciation = Asset Value

**Capital Asset COST is shown on the Income Statement as Depreciation Expense.**

Assets	Service Life	Year 0, Original Cost	Year 1, Annual Depn Expense	Year 1, Accum Depn	Year 1, Asset Value
1212 Buildings and Structures	20 yr	\$ 100,000	\$ 5,000	\$ 5,000	\$ 95,000
1222 Garbage Collection Equipment	7 yr	\$ 161,000	\$ 23,000	\$ 23,000	\$ 138,000
1224 Containers, Toters and Drop Boxes	10 yr	\$ 12,000	\$ 1,200	\$ 1,200	\$ 10,800
1250 Office Furniture and Equipment	5 yr	\$ 5,000	\$ 1,000	\$ 1,000	\$ 4,000
<b>Total</b>		<b>\$ 278,000</b>	<b>\$ 30,200</b>	<b>\$ 30,200</b>	<b>\$ 247,800</b>



# Calculating Revenue Requirement - LG

Input **Operating Revenue** and **Operating Expenses** from **Income Statement**.

Input **Investment** from the **Asset List** or **Balance Sheet**.

Net Book Value  
= Asset Original Cost less Accumulated Depreciation

INPUTS - Test Year	
Operating Revenue	220,000
Operating Expenses	232,400
Investment	205,800
Capital Structure-Debt %	40.00%
Capital Structure-Debt Rate	4.00%
<b>Federal Income Tax Rate</b>	21.00%
B&O Tax Rate	1.750%
WUTC Fee	0.510%
City Tax	0.000%
Bad Debts	0.250%
Basis Points - Flotation	





# Lurito Gallagher Model=linear regression model

## Outputs:

- **Revenue Requirement** and **Percent Increase** used for rate setting.
- **Rate Increase** is used in the memo and agenda description.
- If the Revenue Requirement is negative a rate increase may not be justified.

Line No.	(a)	(b) Historical	(c) Revenue Change	(d) Proforma	(e) Add: Revenue Sensitive Taxes	(f) Revenue Requirement
1	Operating Revenue	1,540,977	67,658	1,608,635	1,864	1,610,499
2	Operating Expenses	1,505,733		1,505,733	1,864	1,507,597
3	Operating Income	35,244		102,903		\$102,903
4						
5	Interest Expense	7,174		7,174		7,174
6	Income Tax Expense	4,872	15,231	20,103		20,103
7						
8	Net Income	23,198		75,625		75,625
9						
10	Operating Ratio	97.71%		93.60%		93.61%
11						
12	<b>Revenue Requirement</b>					
13	Historical Revenue	1,540,977			Revenue Increase before taxes	67,658
14	Rate Increase	69,522			Rev Sensitive Taxes	1,864
15	Revenue Requirement	1,610,499			Rate Increase	69,522
16		Percent increase	4.51%			
17						
18	<b>Capital Structure Financing Investment</b>					
19	Type	Percent	Amount	Cost of Capital	Financing Cost Weighted	Amount
20	Equity	60.00%	269,039	28.11%	16.87%	75,625
21	Debt	40.00%	179,359	4.00%	1.60%	7,174
22	Total	100.00%	448,398		18.47%	82,800
23						
24	<b>Operating Statistics</b>					
25		Before	After			
26		Income Tax	Income Tax			
27	Return on Investment		22.95%	18.47%		
28	Return on Equity		35.58%	28.11%		
29	Operating Ratio		93.60%	93.61%		
30	Profit Margin		6.40%	6.40%		

## Revenue Requirement

Historical Revenue	1,540,977
Rate Increase	69,522
<b>Revenue Requirement</b>	<b>1,610,499</b>
Percent Increase	<b>4.51%</b>

Revenue Increase before taxes	67,658
Rev Sensitive Taxes	1,864
<b>Rate Increase</b>	<b>69,522</b>



# Income Statement Finalized

## Daily Costs

Operating Cost \$201,200

+

## Depreciation

Capital Asset Cost \$31,200

+

## Return

Cost of Money \$32,452

=

## Total Revenue

\$264,852

## Revenue

3100 Residential MSW Revenue	140,000
3200 Commercial MSW Revenue	80,000
Additional Revenue	44,852

**Revenue \$ 264,852**

## Expenses (Costs)

4130 Repairs to Garbage Collection Equipment	32,800
4160 Tires and Tubes	8,000
4213 Drivers and Helpers Wages	70,000
4240 Fuel and Oil	26,400
4360 Disposal Fees and Charges - Net	64,000
5000 Depreciation Expenses (Costs)	31,200

**Total Expenses \$ 232,400**

**Net Income (Loss) / RETURN \$ 32,452**

# Questions?

## Regulatory Services

- Water and Transportation Section

## Presenter:

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