

RATE REVIEW COMMITTEE

December 9, 1981

Members

Stephen Aanderud
Edward Brunet
George Hubel
Mark Gardiner
Robert Wynhausen

Staff

Merle Irvine
Dennis O'Neil
Norm Wietting
Doug Drennen
Doug Robertson
Terilyn Anderson
Patti Polly

Guests

David Hanson, CH₂M HILL
Ken Rust, CH₂M HILL

George Hubel called the meeting to order.

I. MINUTES TO THE MEETING OF NOVEMBER 18, 1981

Corrections made to the minutes on page one, paragraph five, sentence reading: "Continuing with the By-Laws under Article VII (A) Edward Brunet noted that there were no provisions for the Committee to call itself into session." The minutes of the November 18, 1981 meeting were accepted as corrected.

II. PRICE WATERHOUSE REPORT

George Hubel introduced the guests from CH₂M HILL and asked Mr. Dave Hanson to proceed with the presentation. Mr. Hanson began by discussing the different types of methods of establishing rates for landfills. The five he mentioned were: Cost of Service; Tax Subsidy; Ability to Pay; Benefit; and Comparison to Nearby Communities. Mr. Hanson stressed that he and CH₂M HILL recommend using the "Cost of Service" method. He explained that this method establishes all of the site's costs including opening the site, operating and maintaining it and properly closing it. These costs are allocated to the appropriate users.

To determine the costs of the landfill, Mr. Hanson mentioned forms which can be used, such as franchise forms and balance sheets. Next, Mr. Hanson discussed two ways of establishing the required revenue or the costs to be covered by the rates. The cash basis method is typically used by public nonprofit firms and is simply total yearly costs minus other revenue received to arrive at required revenue. The utility basis,

used by private, profit oriented forms, incorporates a given rate of return into costs to assure a return of profit on investment.

Edward Brunet asked Mr. Hanson if there was any way to avoid using the cost of service approach in setting rates, since there is no incentive within this methodology to keep costs down. Dave Hanson replied that there are few incentives for private utilities to keep costs down under the cost of service method or the cash basis method. Incentive to keep cost down must come from the managerial level and not the method of cost allocation and rate setting.

George Hubel asked how closely a rate reviewer would or can look at a budget to determine if the costs are reasonable. Mr. Hanson replied that with major electric corporations, the public utility commission frequently orders detailed audits of the budget for that purpose.

The Committee then asked how to judge "reasonableness" of the costs of service. Norm Wietting replied that some of the costs are comparable to other services performed such as construction and equipment costs and labor scales in the community.

After further discussion concerning rate setting methodology, discussion of the St. Johns Rate Study began. The Committee asked Mr. Ken Rust about the diversion of flow from Rossman's to St. Johns after Rossman's introduces its rate increase. Mr. Rust stated that it was predicted that 17 percent of Rossman's flow would go to St. Johns once the \$3.00/ton increase is implemented. Mr. Rust stressed that the amount of flow affected by the rate change is very difficult to predict because price is not the sole motivation for haulers to go to specific sites.

One of the Committee members asked if an accountant or an engineer should be hired to determine the rate base. Norm Wietting replied that it would take an engineering firm to analyze accurately what costs are involved, based on quantities of leachate, sludge, etc.

George Hubel asked Mr. Rust what assumptions CH₂M HILL made in the determination of St. Johns Landfill rate base. Mr. Rust answered that much of the needed information is known--such as the debt service and the operation and maintenance costs. When necessary, estimates are made by reviewing a local index guide and comparing similar sites in the area. He added that of the estimates to be made, waste flows are the most difficult to project, yet the estimate is very important to the rate setting process. Mr. Hubel asked if there are any mathematical models to help establish rates. Mr. Rust replied that the data is insufficient for modeling, and that such an exercise is not included in the Scope of Work for the St. Johns Rate Study.

Ed Brunet suggested that the assumptions integrated into the St. Johns study be listed clearly. Mr. Hubel agreed and added that in some cases the background to the figures assumed should be included.

George Hubel reminded the Committee that in order to begin to function as a committee, the kind of data to be collected must be decided upon. He asked Mr. Rust if CH2M HILL had any other thoughts regarding what information should be obtained from franchisees. Mr. Rust replied that the most important information is the amount and type of material disposed of at landfills and whether it is measured in compacted or uncompacted yards or tons. Ken Rust explained that a volume basis is a subjective measurement from the viewpoint that if a vehicle is overloaded, the material in excess may be called into question. Charging by weight however, is a precise measurement because the exact weight is shown on the scale at the gatehouse. George Hubel asked how many landfills had returned the information sheets. Terilyn Anderson replied that Killingsworth Fast Disposal had returned the forms.

George Hubel then asked the Committee how they would deal with depreciation, whether it would be straight-line or accelerated. Ken Rust noted that public utilities do not use the accelerated depreciation schedule.

George Hubel asked about Ken Rust's opinion of the Price Waterhouse forms. Mr. Rust replied that the information supplied by the forms should be sufficient to determine a rate basis, however, he questioned an item in the Price Waterhouse Report which describes the operating ratio. The report states that the operating ratio method provides an easily understood range of determining revenue requirements. The Committee agreed that this was confusing. Steve Aanderud suggested that the Committee not accept the report except for the information submitted to date. He suggested that the Price Waterhouse Report and other information be analyzed to determine if changes are needed.

Mark Gardiner moved that the Rate Review Committee form a subcommittee for the purpose of examining materials received so far from the Price Waterhouse Report, the St. Johns Rate Study and the materials received from Killingsworth Fast Disposal and H. G. Lavelle's Landfills. With this information and the assistance of Metro staff, the subcommittee is to make recommendations regarding the formats for gathering the information required in the rate review process. Edward Brunet seconded.

Discussion followed regarding multiple use of facilities, user classes and whether the Price Waterhouse Report is sufficient. Ed Brunet then called for the question.

--Motion carried unanimously.

Mark Gardiner nominated Steve Aanderud to be on the subcommittee. Steve accepted and asked to be supported by one other member from the Committee and by at least one staff member. Robert Wynhausen was also nominated to serve on the subcommittee.

Mark Gardiner moved that the Rate Review Committee of the subcommittee meet with Rick Gustafson, the Executive Officer of Metro, and appropriate members of the Metro Council, for the purpose of discussing the goals and objectives of the rate setting process and the general policies that will guide the Rate Review Committee's Rate deliberations. Steve Aanderud seconded.

--Motion carried unanimously.

George Hubel then directed the subcommittee to meet before the next meeting of the Rate Review Committee which will be held January 6, 1982 at 6:00 p.m. and to present the full committee with the subcommittee's report.

George Hubel then adjourned the meeting.

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