RATE REVIEW COMMITTEE MEETING

February 3, 1982

Members

George Hubel (Chairman)
Stephen Aanderud
Edward Burnet
Mark Gardiner

Not Present

Robert Wynhausen

Staff

Terilyn Anderson
Dennis O'Neil
Doug Robertson
Norm Wietting

Guests

Cindy Banzer, Presiding Officer
Rick Gustafson, Executive Officer
Gary Newbore, Killingsworth Fast Disposal

George Hubel convened the meeting at 6:05 p.m. He asked for changes or additions to the previous meeting's minutes and there were none.

Mr. Hubel began by introducing the guests attending the meeting; Ms. Banzer, Mr. Gustafson and Mr. Newbore. He then began the first order of business by addressing the first policy question. It was whether rates should be based strictly upon financial cost considerations, or whether rates should also reflect impacts on solid waste flow and social goals such as waste reduction.

Rick Gustafson stated that the Rate Review Committee should provide advice on how to control waste flow with price mechanisms. Cindy Banzer said that presently rates are set to cover costs, but that the Council would desire a report from the Committee outlining alternatives and the social impacts associated with the Committee's rate recommendations.

Edward Burnet mentioned that such a project would demand large quantities of work which would require a significant amount of effort from the staff.

Mr. Hubel moved onto the next policy issue, which is what role the staff should play in the rate setting process. Edward Burnet mentioned that Public Utility Commissions are, by nature, dependent upon their staff for most all information and the staff often works to defend the Commission's viewpoint. He asked whether staff here would be adversaries or advisors to either the public or the Rate Review Committee.

George Hubel questioned what the interrelations among the staff, the Council, the Executive Officer and the Committee are: should the staff be implicitly connected with any of these groups--or should the staff be responsible for conveying a specific group's viewpoint?

Mr. Gustafson responded by stating that the Committee is an independent group and that the staff will communicate the Council's opinions to the Committee. Ms. Banzer added that while there is no set policy on staff involvement, the Committee should push the staff as much as they can or need. Furthermore, she expressed that the Committee does not have policy making power, but if their recommendations are well prepared, they will more than likely be looked upon favorably.

The issue of shadow pricing was discussed next. The question of whether rates be based on a ceiling mechanism or by a cost plus method was introduced by Mr. Hubel. Edward Burnet mentioned the problems with a cost plus method by illustrating the short-comings experienced by electrical rate setting. He stated that the cost plus method should not be used, and that the shadow pricing method is simple, fast, reliable, and would allow (some) benefits of a competitive system into the rate levels.

Mark Gardiner brought up the points voiced by the staff in a memo received by the Committee members. He highlighted the disadvantages with shadow pricing that were mentioned by the staff: first the bench mark or ceiling rate would not be based solely on specific operating costs and profit margins--hence leading to potentially unrealistic and excessively high rates; second the rates would not be uniform from site to site and; third the ordinance does not accommodate such a shadow pricing method.

The Committee asked Gary Newbore for his opinion on the shadow pricing method. He responded that shadow pricing would probably result in operators charging rates only as low as the ceiling price. If that ceiling rate was "too low" for any operator, he/she would request a rate above that level. He did not forsee any competitive pricing occurring under this method since each operator would typically view the ceiling as the minimum.

Mr. Newbore offered three points that he felt were important to bring to the attention of the Committee. First, the rate setting methodology and structure that will provide the public with the lowest rates should be adopted. Second, operators must get an appropriate return on their investments. Third, he clerified that there is in fact competition for haulers among the sites that is based upon rates.

Mr. Aanderud asked Mr. Newbore how Killingsworth Fast Disposal includes the salvage value of the landfill into its annual costs. Mr. Newbore said that by quoting the annual leasing costs of the land, the salvage value of the land is implicitly included in that figure. Due to the specifics of each fill (i.e., location, age, amount of settling) he did concede that the actual salvage value can vary greatly and is hard to determine accurately.

Mr. Newbore, in response to a comment on present rate structure, added that the cost plus method of rate setting would not work either. Under cost plus, he argued that since the operator makes a given percentage above his costs, there is no incentive to limit costs. This results in operators increasing costs to increase their gross returns.

George Hubel proceeded to the next issue which concerns how post closure trust funds should be established and included into present rate structures. The staff's opinion is that site specific trust funds should be set up by Metro to assure post closure costs are covered. Mr. Hubel and Mr. Aanderud stressed the importance of the potential taxability of various post closure trust funds.

Mr. Newbore was asked by the Committee for his opinion on the question. He said that his firm looks at the actual post closure that will be incurred and then simply includes those costs into their annual cost and return on investment calculations. He stated that the economics of the residual value of the land will assure that the operator will close his fill properly. He strongly objected to the concept of Metro earmarking some of an operator's money for a post closure fund--due to the poor interest earned on Metro's investments. Instead of being directed by Metro, Mr. Newbore believes that the individual operator should be allowed to take care of his own closure costs--including finding the appropriate trustee to handle a closure fund if necessary.

Mr. Newbore explained that his firm had the closure question accounted for totally. First, Killingsworth Fast Disposal has a performance bond with Metro guaranteeing that the site will be closed properly. Second, the site has an environmental hazard insurance policy that will protect the operator against damages stemming from off-site environmental degradation. Third, there is a deed restriction on the property that requires the company to maintain the site's leachate, groundwater, gas and storm management systems during the term of Metro's certificate.

While the Metro staff questioned the actual coverage provided by the insurance policy in particular, the Committee came to a general concensus that Killingsworth Fast Disposal's coverage seemed to be adequate. The idea of post closure trust funds was dropped.

Rick Gustafson proposed a meeting among Mr. Hubel, Mr. Irvine (Director of the Solid Waste Department at Metro) and himself to provide direction to the Committee and the Council on policy and technical issues. Then, he believed, a clear intent of the agreed upon policies could be presented successfully to the Regional Services Committee.

Mr. Hubel then introduced the last question: whether the staff or the Committee should allocate the specific revenue requirements and rates to the various user classes. The staff's response is that the franchisee include a proposal for allocating costs to users, the staff review and critique the proposals and then send it to the Committee for final recommendations. The Committee agreed upon this answer.

The date for the next meeting was set for February 17 at 6:00 p.m. Mr. Hubel adjourned the meeting.

DR:bb