

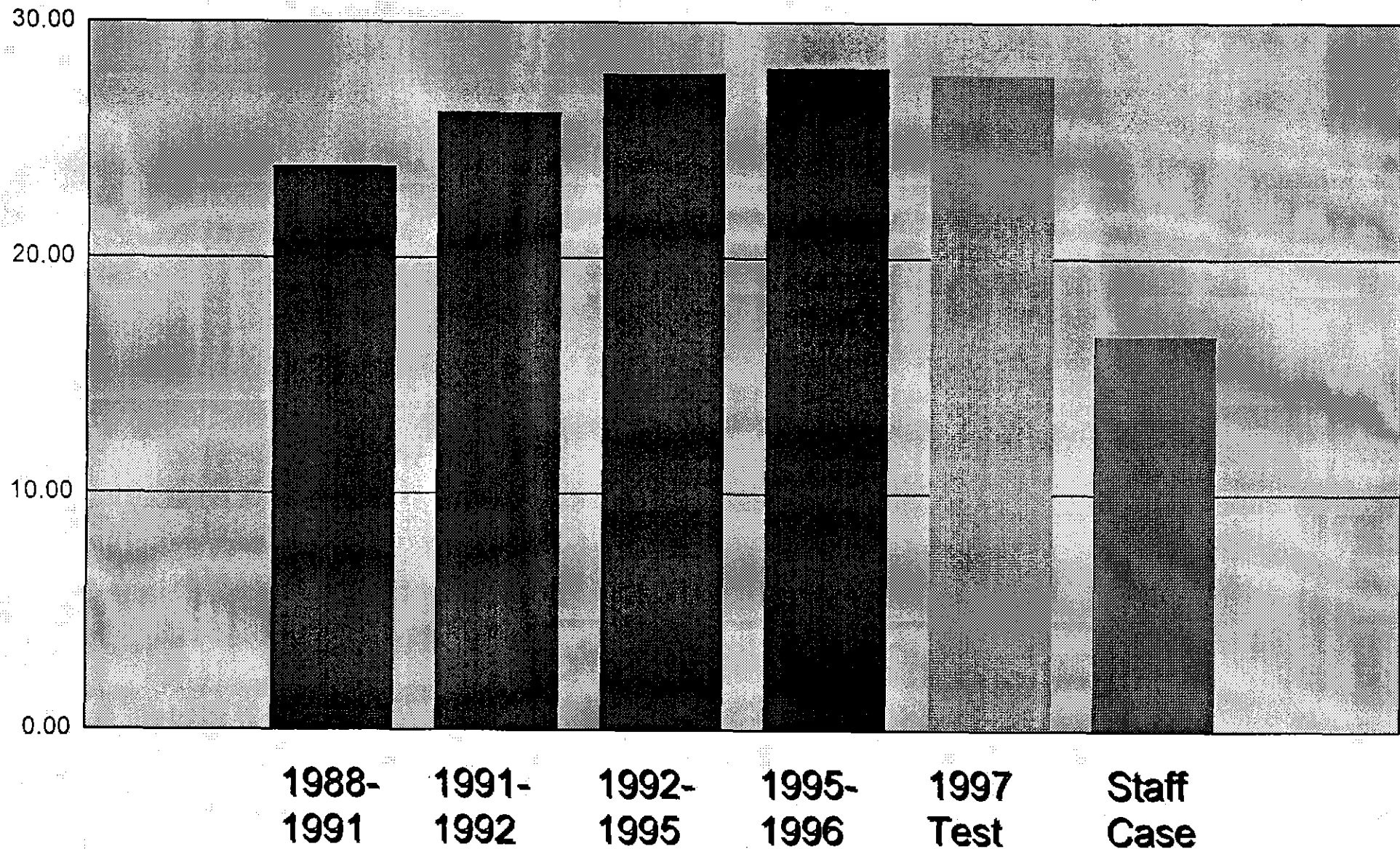


# **A.C. Trucking Rates at the Forest Grove Transfer Station**

December 4, 1996  
Metro Rate Review Committee

# Historical Background

## Transfer Component History for AC Trucking Rates



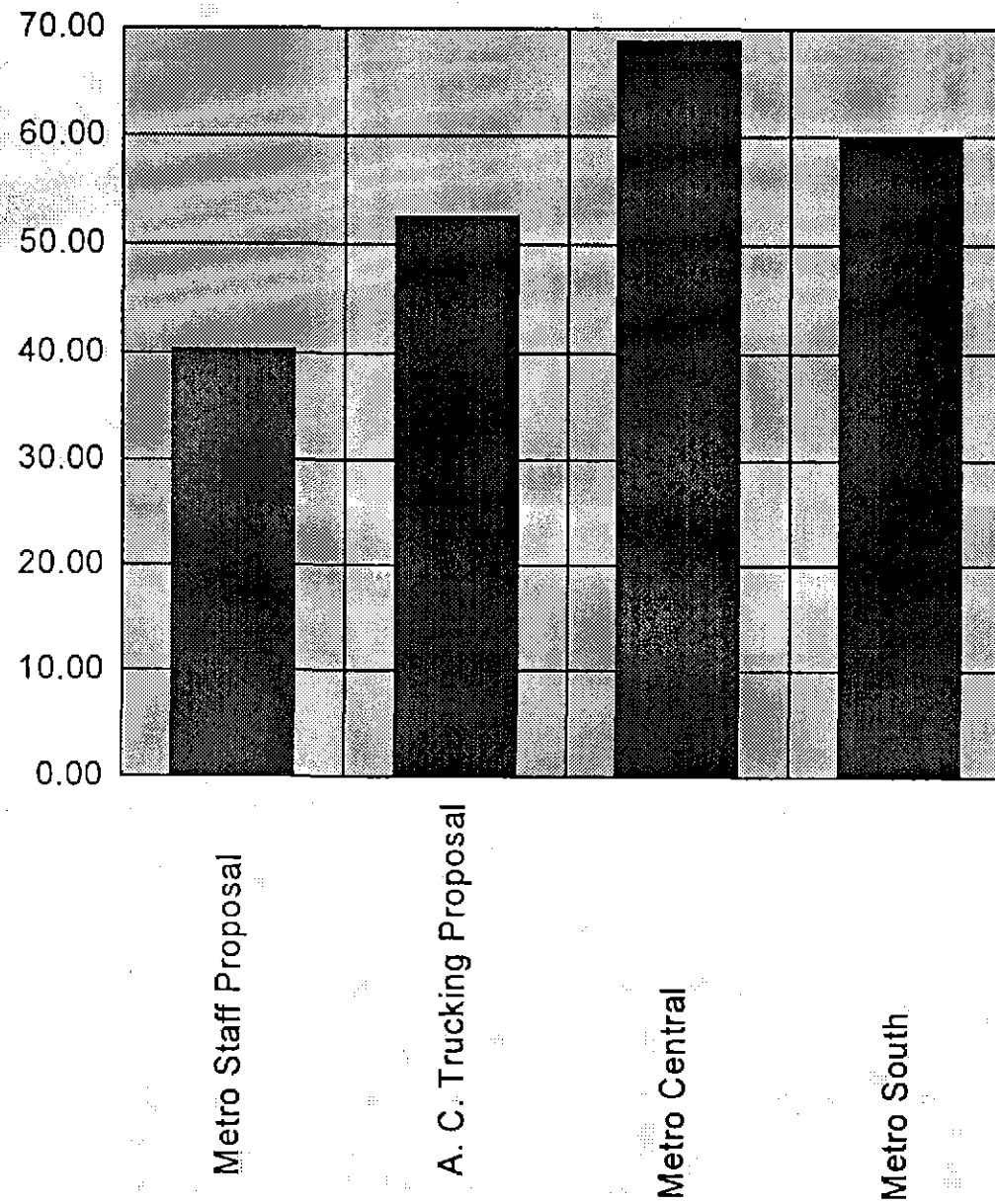
# **Service Provided**

- **Transfer Station**
- **Drop-in Recycling**
- **Curbside Recycling Transportation**
- **Reports to Metro**

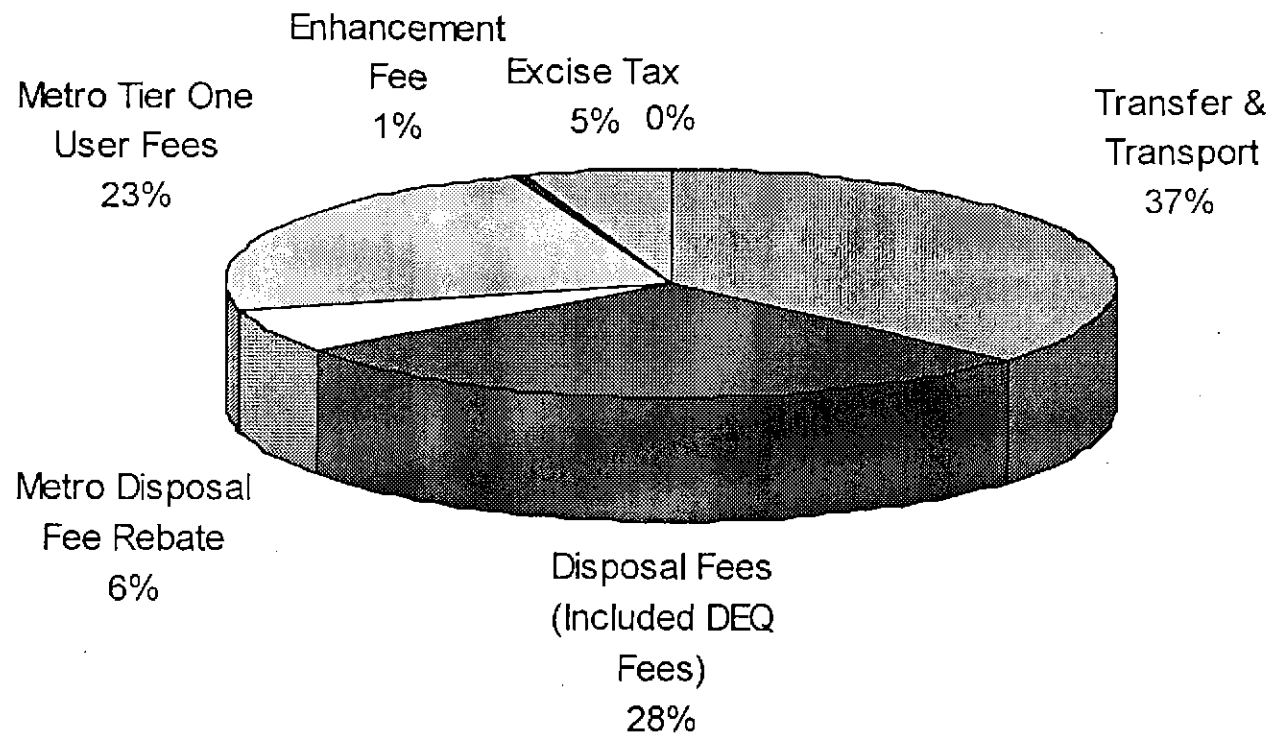
# Efficient Operation

- Forest Grove transfer station has maintained the lowest cost in the Metro area
- Contributes the largest share of its total revenues to the Metro budget of the three transfer stations
- Forest Grove is highly efficient and uses less manpower per ton than the other transfer stations.

# Economic Tip Fee



# Cost Components



# **Traditional Public Utility Service Ratemaking**

**The rules for public rate making have been in place for over 100 years**

**From 200 to 300 billion dollars annual are conducted under these rules**

**The rules specify a very formal method of calculating costs and generating rates**

**These rules are now used throughout North America, Europe, and Japan**

# Basic Regulatory Rules

- The basic regulatory formula is:  
Revenue Requirements = Expenses +  
Depreciation + Return
- Expenses are wages and out-of-pocket costs
- Depreciation is the "wear and tear" on equipment
- Return is the cost of equity and debt used to provide the capital to run the business multiplied by the expected rate base



# Results

**A. C. Trucking's 1997 rates (without additional Metro taxes and fees) should be \$70.69/ton**

- Revenue Requirements = Expenses + Depreciation + Return

**OR**

- $\$1,934,652 = \$1,579,359 + \$124,125 + \$231,168$

# Staff Assumptions

- Staff used data nearly two years out of date: Forest Grove would face two years of cost increases without additional revenues
- Staff assumed no equity at all: any cost increases would be taken from debt -- this is synonymous with bankruptcy
- Staff's disallowances reflect early workpapers -- workpapers that have subsequently been corrected and brought up to date
- Staff's assumptions appear inconsistent with the Solid Waste Information System

# Using a 1997 Test Year

- The proposed rate will be in effect in 1997: it is logical to use 1997 costs
- The proposed rate calculation should be consistent with other Metro planning information
- We used the actual debt and equity data generated by A. C. Trucking's financial statements
- Instead of using an assumed interest figure we used actual interest
- We generated a Return of Equity from a market basket of firms with similar SIC codes -- 15.25% -- using standard industry methods

# Staff Criticisms

- Staff has been using rules and regulations for Washington, not Oregon
- Staff has assumed many critical parameters
- Staff has (perhaps, understandably) analyzed the wrong year -- 1995
- Staff has not completely followed the logic and computations of EO-25