2013 RATE APPLICATION
NARRATIVE SUMMARY

December 11, 2012

Recology Sunset Scavenger
Recology Golden Gate
Recology San Francisco

I. OVERVIEW

A. MANAGEMENT OF RESOURCES IN SAN FRANCISCO

The City of San Francisco is recognized as a world leader in environmental stewardship. In 2011, San Francisco was named the Greenest City in North America, in large part due to its number one ranking in waste management. In 2012, San Francisco announced that it had achieved 80 percent landfill diversion, again demonstrating international leadership for a major urban city. The San Francisco collection and processing companies – Recology Sunset Scavenger, Recology Golden Gate, and Recology San Francisco (the "San Francisco Companies" or "Companies") – work in concert with the City to achieve these important goals. The combined efforts of the City and the Companies have been the focus of local, national, and international media coverage as one innovative achievement after another has been recognized.

The City is not resting on its past accomplishments. San Francisco's Board of Supervisors has passed two major policy initiatives that steer the City forward to even greater environmental stewardship: (1) the Mandatory Recycling and Composting Ordinance and (2) Zero Waste by 2020.

1. Mandatory Recycling and Composting Ordinance

The Mandatory Recycling and Composting Ordinance took effect in October 2009. It requires all residents and businesses to separate discarded materials into three streams – recyclables, compostables, and trash. While the City's residential and commercial customers have been served by this three-stream system for about ten years, participation had been voluntary. The Mandatory Recycling and Composting Ordinance not only mandated full compliance with the separation system, it also included enforcement provisions.

The Ordinance has resulted in substantial impacts to both service and customer billings. As a result of the Ordinance, participation increased and diversion rates picked up significantly, particularly as previously non-participating or poorly-participating multi-family and commercial customers moved to greater recycling and composting service. Presently, residential/apartment customers are billed solely on the basis of trash container volume and commercial customers receive steep discounts on recycling and composting services. As a consequence of the current rate structure, billings to customers decreased as trash service (black stream) decreased and recycling service (blue stream) and composting service (green stream) increased.

The current rate structures for both residential/apartment rates and commercial rates were designed to promote diversion, and both provide strong financial incentives for customers to orient their service to diversion (recycling and composting services). Under these structures, however, as the diversion programs became more successful and the service configuration shifted, the Companies' revenues have decreased. At the same time, costs have increased related to the additional recycling and composting services provided. Any cost reductions in providing trash services have been far outweighed by additional cost of expanded recycling and composting services.

2. Zero Waste By 2020

Zero Waste by 2020 is a policy goal adopted by the City in 2003. Zero Waste includes eliminating tonnage from the landfill and finding the highest and best use for all discarded materials. Achieving Zero Waste is a very challenging goal that will require significant planning, infrastructure investment, and changes to collection and processing operations. The Companies have been working with the City to identify the necessary system improvements, including the incorporation of new waste processing technologies. These planning activities will continue during the near-term horizon covered by this rate application. In addition, the Companies will begin the challenging task of processing the mixed waste stream (i.e., black cart) to further reduce the quantity of materials being landfilled.

B. RATE APPLICATION GOALS AND OBJECTIVES

The fundamental goal of the Companies in submitting this rate application is to obtain approval for rates that will generate sustainable revenues to allow the Companies both to maintain quality service and to continue operating and developing innovative programs to help the City attain its ambitious diversion goals. The Companies' application is driven by two main objectives:

- Begin implementation of sustainable zero-waste residential and apartment rate structures.

- Advance the effort to achieve zero waste by 2020

C. RATE APPLICATION PROCESS

The rate application process follows the Rules of Procedure set forth in Department of Public Works (DPW) Order No. 180,851. The Companies are proposing a one-year rate period beginning on July 1, 2013 and ending on June 30, 2014. Cost of Living Adjustments (COLA) would be applied in following years until the next rate process occurs.

D. WEBSITE: www.SFZeroWasteRates.com

To promote transparency in the rate filing process, the Companies have established a website to make facts and information about the rate application easily available to San Francisco residents. Customers can find information about the rate process at www.SFZeroWasteRates.com.

II. PROGRAMS INCLUDED IN THE RATE APPLICATION

A. CURRENT PROGRAMS

The rate application assumes that current programs provided to San Francisco's residential and commercial customers will continue in the new rate period. These programs play an integral role in achieving the City's diversion goals. The core of the system is the three-stream collection of recyclables, compostables, and trash from residential, apartment and commercial customers. In addition, the three-stream program is augmented by a variety of specialized collection and processing operations.

Current programs and operations to be continued include:

1. COMINGLED RECYCLABLES COLLECTION (Blue Stream): Residential and commercial collection of comingled recyclable, including paper, glass, aluminum, tin cans, and hard plastics (cups, tubs, lids, buckets, and toys without wires or metal parts).

2. COMPOSTABLES COLLECTION (Green Stream): Residential and commercial collection of food scraps, plant materials (yard waste), and soiled paper.

3. TRASH COLLECTION (Black Stream): Residential and commercial collection of non-recyclable and non-compostable materials.

4. BULKY ITEM COLLECTION (RecycleMyJunk.com): Special collection and recovery/diversion of bulky items, such as furniture, appliances, scrap metal, wood, cardboard, and electronics.

5. CURBSIDE BATTERY RECYCLING: Customers place batteries in zip-lock bags and place them on top of their black bins. Trash collectors place them in a special bucket in the collection truck. Workers at the transfer station then sort the batteries according to DOT rules and ship them to battery recycling facilities.

6. COMMERCIAL WOOD, SCRAP METAL, AND LARGE PLASTIC RECYCLING: Special routes collect broken pallets from warehouses, wood scraps from cabinetmakers, and car doors and bumpers from auto shops, which are then sorted and recycled.

7. WINDOW GLASS RECYCLING: Glass from window shops and commercial customers is collected.

8. CHRISTMAS TREE RECYCLING: Christmas trees are collected at the curb during the first two weeks of January, chipped, and used as fuel at biomass waste-to-energy facilities.

9. CONSTRUCTION-AND-DEMOLITION WASTE RECYCLING: As buildings are constructed, remodeled or demolished, metal, wood, sheetrock, rigid plastic, and other construction materials are captured in debris boxes, then taken to Recology's

construction-and-demolition recycling facility (iMRF) for sorting.

10. HOUSEHOLD HAZARDOUS WASTE DROP OFF: Recology operates the San Francisco Household Hazardous Waste Collection Facility (HHWCF), where residential customers can drop off household hazardous wastes (e.g., paint, oil, pesticides, and household chemicals) three days per week for safe recycling and disposal. This facility has been open since 1987 and was the first permanent HHWCF in the nation.

11. DOOR-TO-DOOR HOUSEHOLD HAZARDOUS WASTE COLLECTION: Recology also collects household hazardous wastes directly from homes using specialized trucks for handling and transporting these materials.

12. VERY SMALL QUANTITY GENERATOR PROGRAM: Qualifying small business generators of hazardous waste in San Francisco may use the HHWCF by appointment for a fee on designated days each month.

13. E-WASTE RECYCLING: Most electronic waste is banned from landfill in California. Fluorescent tubes, monitors, televisions, computers, and other electronics are collected from drop-off locations, curbside collection appointments, and the transfer station then shipped to facilities specializing in recycling specific types of e-waste.

14. SAFE NEEDLE PROGRAM: The San Francisco Safe Needle Disposal Program (SFSNDP) provides San Francisco residents with safe, convenient disposal of home-generated sharps at more than 70 pharmacies throughout the City. Residents can pick up empty sharps containers at participating pharmacies, fill them, and then return them for disposal as medical waste.

15. SELF-HAUL RECYCLING: Recology operates a special sorting line to recycle wood, metal, rigid plastic and other recyclable materials self-hauled to the transfer station by individuals and small contractors.

16. PERFECTLY-GOOD REUSE PROGRAM: Recology pulls items that are in good condition for reuse (e.g., bicycles, furniture, clothing) from loads brought to the transfer station by individuals and small contractors. The re-useable items are either donated directly or given to organizations (e.g., St. Vincent DePaul) that process them for distribution in thrift stores.

17. MATTRESS RECYCLING: Mattresses from residents, hotels, and designated collection trucks are loaded into trailers at the transfer station and transported to a local company specializing in mattress recycling.

18. TEXTILE DROP-OFF AND COLLECTION: Residents and businesses can drop off textiles at the transfer station for recycling. In addition to the drop-off, Recology collects source separated textiles from businesses that manufacture clothing and cut garment patterns. Residents can also recycle textiles through the Bulky Item Recycling Program. The textiles are baled and shipped to recycling markets.

19. TOILET RECYCLING: Old toilets are segregated from the waste stream and transferred to a company that specializes in porcelain recycling. Prior to shipment, toilet seats and lids are removed and baled with other rigid plastics for recycling.

20. TIRE RECYCLING: Used tires are handled separately at the transfer station and then taken to a company that shreds and recycles the rubber.

21. STYROFOAM DROP-OFF: Residents and businesses can drop off styrofoam at the transfer station for recycling. Recology San Francisco operates a special densifier that condenses loose pieces of Styrofoam into ingots, which are recycled into such products as base boards and moldings.

22. FILM PLASTIC DROP OFF: Residents and businesses can drop off film plastic (e.g., plastic bags) at the transfer station for recycling. The film plastic is baled and shipped to plastic recycling markets.

23. CITY CAN COLLECTION: Recology collects from over three-thousand City litter cans distributed around the City. Each can is emptied at least once per day, and some cans are emptied as many as three times per day.

24. DISTRICT CLEAN-UP EVENTS: Special clean-up events are held annually in each of the City's eleven Supervisorial Districts to allow residents to drop off items too big to fit in the regular collection bins, including all three refuse streams. Motor oil, batteries, and fluorescent lamps are also accepted.

25. SPECIAL EVENT RECYCLING: Recology provides recycling and compost collection services to neighborhood festivals and major functions such as the Chinese New Year Parade and the Pride Parade.

26. CONCRETE AND ASPHALT RECYCLING: Recology's Sustainable Crushing operation crushes and recycles concrete, asphalt, bricks, and porcelain into recycled construction products. Our aggregate and engineered-fill products not only displace virgin materials, but they play an integral role in a closed-loop recycling system, whereby old City streets and structures are recycled back into similar construction uses within the City by local companies.

27. CONCRETE REUSE: Recology also utilizes excess wet concrete from cement companies for creating building-block products as well as on-site construction applications.

28. BUY-BACK CENTERS: Recology operates buy-back centers for customers who want to bring in bottles and cans for deposit redemption.

29. ARTISTS IN RESIDENCE: Recology sponsors an artist in residence program to demonstrate the possibilities of creative re-use of materials and to promote recycling. The Company sponsors about 8 residencies per year through this award-winning program, providing work space, access to materials, administrative support, and exhibition opportunities.

30. EDUCATIONAL TOUR PROGRAM: Recology provides educational tours to thousands of children and adults annually. The focus of the tour is on recycling, composting, reuse, and resource conservation. The tour includes visits to the solid waste transfer station, the recycling facility at Pier 96, the sculpture garden, and the artists' studio.

31. COMPOST GIVEAWAY: Recology provides free compost to San Francisco residents on an annual basis at various locations in the City. The compost is derived from food and garden wastes generated in San Francisco, collected by Recology, and composted at one of Recology's composting facilities.

The Companies and the City have worked together for many years to provide the public education and outreach needed to support these programs, and the continued success of the programs requires on-going public education and outreach efforts.

B. NEW PROGRAMS

1. Trash Processing

In 2013, Recology San Francisco plans to begin processing a portion of the trash (black cart) stream. The processing operations will be conducted on the west side of the transfer station. The processing equipment consists of a trommel screen, a sorting platform and conveyor, a Bio Separator, and associated transfer conveyors. Black stream loads will be unloaded onto the transfer station floor and inspected for prohibited wastes. The waste will then be loaded into the trommel screen infeed hopper. Large materials that do not pass through the screen will be sorted for recovery (e.g., metals, glass, paper, plastic containers). Small materials that pass through the screen (unders) will be loaded into the Bio Separator, which separates the waste into two streams: an organic-rich slurry suitable for anaerobic digestion and/or composting and a solids contaminant stream consisting mostly of plastic and other non-organic materials. The objectives of this project are to achieve increased diversion of materials from landfilling and to gain experience with trash processing, thereby providing insight and experience in advance of the Zero Waste facilities design.

2. Abandoned Waste Collection

At the request of the City, the Companies have proposed the assumption of the abandoned waste collection program currently operated by the DPW. This proposed program includes the collection of wastes identified through the City's 311 reporting system, along with abandoned waste identified by Company personnel. The Companies propose to operate the program similar to the Bulky Item collection program, with utilization of rear-loading packer trucks and MEA (mattress, electronics, appliances) trucks. Each crew would consist of 2 drivers, one in each type of truck. Drivers would be assigned to a specific service area, and would be routed to collect abandoned wastes reported through the 311 system. Each driver would also be expected to collect any abandoned waste present on their routes, even if it is not part of the 311 calls. All stops and collections will be documented. This program structure will enhance recycling and the diversion rate for abandoned waste through utilization of the MEA trucks.

In addition to collection of materials related to 311 calls, the abandoned waste program will provide packer support for special events identified by the City, including selected parades, festivals and holidays. The program includes all program costs, including 10 drivers each weekday, 8 drivers on Saturday, 6 drivers on Sunday, supervision, administrative support, vehicle costs, and disposal costs corresponding to expected tonnage.

3. City Can Maintenance

In addition to the current City Can collections provided by the Companies, the Companies are proposing to assume responsibility for replacement of liners, locks and doors for City Cans. This additional service will be performed by existing Company personnel and will be added to their current responsibilities without an increase in headcount. The City, through DPW, will retain responsibility for major city can repairs, city can installation and removal, graffiti abatement and steam cleaning. DPW will supply the Companies with liners, locks and doors necessary to maintain the city cans.

C. CONTINGENT SCHEDULES

The Companies are proposing two contingent schedules that would be triggered upon future actions by the Companies and corresponding future approvals by the City. These costs are not included in the base rate application.

1. Contingent Schedule 1 – Zero Waste Facility Expansion

Providing the infrastructure necessary for meeting the City of San Francisco's zero waste goals requires the expansion of Recology's Tunnel and Beatty site. Achieving zero waste will involve processing the entire waste stream, including the trash (black cart) stream. In addition, more advanced processing of the recycling (blue cart) and composting (green cart) streams is envisioned for the future in order to divert more materials from landfilling and to ensure sustainable markets for recovered materials. The additional processing operations would take place in new facilities that cannot be accommodated on the existing site. Contingent Schedule 1 addresses the costs associated with the acquisition of additional land necessary for the zero waste infrastructure.

2. Contingent Schedule 2 – West Wing Project

Infrastructure at Recology's Tunnel and Beatty site is space-constrained (as noted above). The Companies have identified one near-term facility-expansion opportunity to provide building space for testing and developing the processing technologies needed to achieve zero waste. This project would involve constructing a west wing to the existing transfer station. The West Wing Project would provide approximately 20,000 square feet of additional building area. The Companies propose testing and developing trash-stream processing equipment on a demonstration scale to assist in technology selection for the full-scale zero waste facilities of the future. It is envisioned that following construction of the full-scale facilities, the west wing building would be used for either specialized recycling operations (e.g., plastics processing) or maintenance of mobile equipment used in the transfer station and

in the construction-and-demolition recycling facility located on the east side of the transfer station.

III. CHANGES TO RATE-SETTING METHODOLOGIES

1. Residential Rate Structure

The current residential rate structure was designed to incentivize residents to participate in diversion programs by billing residential customers solely on the basis of trash service volume. During the last rate process, the black cart rate was set to cover all of the estimated costs of the residential collection program at that time, including fixed costs and costs associated with the recycling (blue) and compost (green) streams. As the City moves toward zero waste, it is widely recognized that the refuse rate structure needs to be reconfigured, as higher levels of diversion are accompanied by a shrinking volume of trash. Since the current residential rate structure spreads total system costs over that shrinking volume, residential revenues are not sustainable in their current configuration. In addition, since a growing portion of the overall system costs (both collection and processing) are related to the costs of the recycling and compost streams, it is a natural evolution of the rate structure to include charges for those streams now and into the future. The proposed rate structure for residential rate customers includes a nominal charge of $2.00 per 32 gallons of capacity for recycling and composting streams. This charge is not expected to impact the level of recycling and composting service provided. Customers are still incentivized to move towards recycling and compositing service as the proposed volumetric charge for these diversion services is substantially less than the proposed volumetric charge for trash service.

In addition to the variable cost changes described above, the Companies are proposing a fixed charge of $5.00 for each residential unit to be included in the new residential rates. The fixed charge is intended to cover some of the fixed system costs related to the provision of residential services, including capital costs, administrative costs, and regulatory costs.

Individual residential customer rate increase percentages will vary depending on their respective volume and composition of service. Customers who in the past have received additional diversion services without a specific charge related to that service may see rate increases greater than the base increase. In order to mitigate the impact of the structural changes, the Companies are proposing to cap the first year rate increase for all residential customers at 23.75%. This cap will be removed after the rate year and any additional revenues resulting from that change will be included in the calculated COLA adjustment for the following year.

2. 20-Gallon Rate

The Companies are proposing to charge 20-gallon customers at 20/32 (62.5 percent) of the 32-gallon rate, rather than the previously established 77 percent. Consequently, all volumetric charges for residential customers are now proportional. 20-gallon customers will also be subject to the charges for recycling and composting services discussed above. Recycling and composting services are provided to residential customers, including 20-gallon trash customers, in 32-gallon increments only. In addition, 20-gallon customers will also be subject to the fixed charge for single family dwellings described above.

The change in the volumetric charge for the black cart described above reduced the overall increase for the 20-gallon customers. This is intended to partially mitigate the total magnitude of the increase for these customers.

3. Apartment Rate Structure

During the last rate process, apartment customers and apartment rates were conformed to the residential rate structure. At that time, the uniform structure was effective in providing incentives for apartment customers to move toward recycling and composting service and allowed the move away from the old room-count structure. This was important to support the diversion programs during their development stage. With the maturity of these programs, institutionalization of recycling and composting as accepted practices, and the adoption of the mandatory recycling and composting ordinance discussed above, the apartment rate structure needs to evolve in order to continue to provide incentives to apartment customers to increase their diversion services.

The Companies are proposing to implement an apartment rate structure patterned after the commercial rate structure adopted in 2006. The new discounted volumetric structure includes a fixed charge and equal volumetric charges for all service volume, irrespective of the type of service. These charges are partially offset by discounts for recycling and composting service. The details of the proposed apartment rate structure are summarized below.

The proposed structure includes a $5.00 per unit fixed charge component. This charge is the same as the per unit fixed charge proposed for residential customers. The fixed charge is intended to cover some of the fixed system costs related to the provision of services for apartment customers, including capital costs, administrative costs, and regulatory costs.

In addition, the proposed structure includes volumetric charges equal to $27.91 per 32 gallons of weekday service, irrespective of type of service. This change applies the current black cart charge to all service volumes. The calculated gross revenue is largely offset by the discounts available for diversion services, as described below.

Discounts of up to 75% are calculated from each customer's diversion percentage as a percentage of total volume, less 10%. The first 10 percent of diversion is not eligible for a discount due to the fact that there is a minimum level of diversion service required by the mandatory recycling and composting ordinance. This discount structure rewards customers that have more diversion (recycling and composting) services and encourages others to migrate towards more diversion service. As customers increase their diversion services and their diversion percentage, they will be able to partially offset the rate increase. As an example, if a customer has 3 equal size containers (one for each of the black, blue and green streams) they have 67 percent diversion. The discount they would receive on their volume is 57 percent (67% – 10%). If the customer added another recycling cart, the diversion discount would become 65 percent (75% – 10%).

Since it will take time for existing customers to migrate to additional diversion services and away from trash service, the Companies are proposing to include a cap of 25 percent on increased overall charges for all apartment customers. This cap will be phased out over a

two-year period. The cap will limit the overall increase during the rate period and will allow customers to get acclimated to the new rate structure and determine their optimal service level and configuration before they would be subject to any additional increase.

4. Commercial Rate Structure

Commercial rates were reconfigured in 2006 to (1) reflect the move towards zero waste, and (2) incentivize commercial customers to help the City reach higher diversion goals. The commercial rates currently include a base rate and a variable service rate, with a discount available based on the proportion of diversion services (recycling and compost) to the total service volume. The variable service rate for collection of trash, recycling and compost is based on total service volume, with a consistent charge across all volume irrespective of the type of service. The discount, taken as a reduction of the volumetric charge, is currently capped at 75 percent. The base rate covers certain system fixed costs outside of direct costs for trash, recycling and composting service.

The Companies intend to implement some minor changes to the commercial rate structure. The changes are designed to maintain a sustainable revenue stream within the context of movement towards zero waste, along with creating new incentives to drive further diversion by commercial customers. Commercial revenues are expected to increase significantly as a result of the structural changes. The increased commercial revenue is included in the rate model as a reduction of the revenue requirement used to calculate residential and apartment rates.

The fixed rate is moving from 5 percent to 10 percent of each commercial bill. This change moves the fixed cost component closer to the actual fixed cost as a percentage of total cost.

Discounts of up to 75 percent of the variable component of the commercial billings are still available based on the proportion of diversion service in excess of 10 percent and up to 85 percent of total volume. The first 10 percent of diversion is no longer eligible for a discount since there is now a minimum level of diversion service required by the mandatory recycling and composting ordinance. For example, if a commercial customer has one 96-gallon cart for trash, one for recycling, and one for composting service, then total diversion service volume represents 67 percent. The discount for this customer would be 57 percent (67% – 10%) If a customer has one 1-cubic-yard bin for trash and one 1-cubic-yard bin for recycling, then total diversion service volume is 50 percent and the discount would be 40 percent (50% – 10%).

5. Diversion Incentive

As the City pursues zero waste, the Diversion Incentives (DI) should evolve to reflect changing performance requirements and standards. During the 2014 rate year and forward, the tracking parameter and performance measure will be disposal tonnage. Correspondingly, the proposed DIs for Rate Years 2014 and beyond are all based on landfill disposal tonnage. The proposed new DIs are set by the Department of the Environment and will be determined as part of the rate process. The plan is to establish incentive targets that would take current disposal levels down to a level corresponding with 90 percent diversion.

The Companies and the City are currently exploring incentives related to the recovery or elimination of toxics from the waste stream. The incentives would likely be based on achieving targets related to capture of toxics from the refuse stream. Final incentive targets and incentive awards will be determined for the final rate application.

6. COLA

In the 2001 Rate Application, the Companies and the Rate Board approved a Cost of Living Adjustment (COLA) in rates to enable the Companies to recover cost increases resulting from inflation over the five-year rate period (2001-2006). This COLA carried over to the 2006-2011 rate period, and was modified to include a fuel index. The present COLA has four components: (1) a labor component based on COLA increases included in the current labor contract changes, (2) a Consumer Price Index (CPI) component for specified cost items, (3) a California Diesel Fuel Index and (4) a Producer Price Index (PPI) component for other specified cost items.

The Companies propose to apply the COLA mechanism to the periods subsequent to the rate period and until a new rate is set by the Rate Board. The COLA will be updated to reflect the current cost structure with weightings of the COLA components adjusted as appropriate. The COLA will include a labor component that is reflective of the current labor agreements, which include an annual COLA adjustment of between 3 percent and 5 percent. In addition, the Companies propose to modify the COLA by adding a component for health and welfare costs. As is widely recognized, health and welfare costs have increased greatly over the last several years and are expected to continue to rise. In addition, because of the uncertainty related to recent legislative and regulatory changes, the increase in costs could be quite dramatic. The Companies propose to use a five-year average of historical cost increases as the proxy for future cost increases. Consequently, the health and welfare component of the COLA could be substantially different than the actual change in health and welfare costs. The proposed modified COLA mechanisms are designed to ensure that the Companies fairly recover costs that increase during the periods subsequent to the rate period until a new rate is established, thereby protecting both ratepayers and the Companies.

The COLA mechanism will be adjusted to reflect actual changes in the additional revenues generated by the removal of the apartment and residential caps in the two years following the rate period, offset by the loss of revenues due to migration towards greater diversion service and through service reductions.

7. Special Reserve Surcharge

Under the Facilitation Agreement to the Altamont landfill disposal contract, a 1.3 percent surcharge was previously added to bills to provide a fund for unexpected cost increases associated with the contract (i.e., in between rate-setting processes) and to build a reserve for any future liabilities associated with disposal at the Altamont landfill. In the 2010 and 2012 rate processes conducted by the City, a determination was made that (1) the Special Reserve Fund had reached adequate levels to meet its intended uses and (2) the 1.3 percent surcharge should be redirected to the Department of Public Works for its costs associated with solid waste management. In the proposed rates, the City has directed the Companies to include the

equivalent of the 1.3 percent surcharge in its rates and to eliminate the surcharge on top of the rates.

8. Discount for E-Bill Customers

To encourage source reduction, E-bill customers will be credited $1 for each bill presented and paid electronically.

IV. PROPOSED RATE STRUCTURE

A. RATE-SETTING BASIS

The rate application is based upon the combined revenues and expenses of the Companies. Revenue requirements and a consequent tipping fee are calculated at Recology San Francisco, with the consequent disposal and processing costs passed through to the Collection Companies. The costs of the Collection Companies are then used to calculate the individual rates charges for collection services.

Revenues and expenses are provided in 2014 dollars.

B. REVENUE REQUIREMENTS

The Revenue Requirement for the Collection Companies represents an increase of 23.75 percent over current revenues received by the Collection Companies. However, the Revenue Requirement only represents an increase of about 8.1 percent over Rate Year 2011 revenues approved in the 2006 rate-setting process. The major components of the need for additional revenue are (1) the migration of service from trash (black stream) to recycling service (blue stream) and composting service (green stream) (2) recovery of inflationary cost increases and (3) new programs to support zero waste initiatives and support clean city programs.

C. PROPOSED RATES

As described in Section III, the Companies are proposing that residential rates include (1) a fixed charge, (2) a volumetric black container charge, (3) a volumetric blue container charge, and (4) a volumetric black container charge. The proposed residential rates are:

Fixed Charge = $5 per household dwelling unit

Volumetric Black Charge = $25.81 per 32-gallons of container capacity (weekday collection)

Volumetric Blue Charge = $2 per 32-gallons of container capacity

Volumetric Green Charge = $2 per 32-gallons of container capacity

All volumetric charges for residential customers are proportional to the 32-gallon rates.

The proposed apartment rates are:

Fixed Charge = $5 per household dwelling unit

Volumetric Charge = $27.91 per 32-gallons of container capacity (weekday collection)

Discount of up to 75% of volumetric charge based on calculated diversion percentage above 10 percent

D. BREAKDOWN OF COST COMPONENTS

Following is an approximate breakdown of operating costs for the Companies:

- Labor represents the largest cost by far. Labor and benefits amount to nearly 60 percent of total costs.

- The next largest category is truck-operating costs, which represent approximately 14 percent of total costs. Truck-operating costs include fuel, oil, repair and maintenance, licenses, and City permits.

- Disposal and other recycling processing costs (exclusive of labor and benefits costs) account for about 9 percent of total costs.

- Facility operating and maintenance costs represent about 9 percent of costs. Facility costs cover Recycle Central at Pier 96, the iMRF, the transfer station, the enclosed Public Disposal and Recycling Area, the Household Hazardous Waste Collection Facility, scale facilities, administrative offices, and maintenance and related operational facilities.

- The remaining 9 percent of total costs consist of supplies, professional services, contract services, information technology, environmental and safety compliance, human resources, and accounting.

E. BREAKDOWN OF REVENUE INCREASE

The costs described above result in a revenue increase requirement of 23.75 percent. The contribution of major items is as follows:

1. The collection revenue shortfall due to migration to diversion services and the economic slowdown increases the required revenues by 16.7 percent.

2. The recycling revenue shortfall due to lower quantities and lower prices increases the required revenues by 3.1 percent.

3. Additional funding of City Departments and assumption of the abandoned waste collection program increases required revenues by 2.6 percent.

4. Zero waste initiatives (Brisbane recycling fee, black stream processing, and Less-Than-Weekly pilot, and Routeware implementation) increase the required revenues by approximately 2.8%

5. Increases in other expenses increases required revenues by 2.5 percent.

6. Labor cost savings decrease the required revenues by 4.0 percent.

V. CONCLUSION

The Companies and the City share a common goal of attaining Zero Waste by 2020. In striving to achieve that goal, the Companies are working to (1) implement a zero-waste rate structure that is sustainable as the black cart is minimized and ultimately eliminated and (2) begin the challenging task of trash processing. The Companies believe that the revisions to the rate structure proposed for Rate Year 2014 will be the foundation for a sustainable revenue stream to support the programs necessary to move the City and the Companies towards their joint objectives and at the same time satisfy the requirement of the governing ordinance that rates be "just and reasonable."