



March 14, 2013

VIA HAND DELIVERY

Ms. Naomi M. Kelly
City Administrator
City and County of San Francisco
City Hall, Room
1 Dr. Carlton Goodlett Place
San Francisco, CA 94102-4645

Re: 2013 Rate Application

Dear Ms. Kelly:

The San Francisco collection and processing companies, Recology Sunset Scavenger, Recology Golden Gate and Recology San Francisco (the Companies) are pleased to submit the following rate application for the period of July 1, 2013 to June 30, 2014.

It is a privilege to serve the City and County of San Francisco, its residents and businesses, as we have for nearly 100 years. We are particularly proud of our shared accomplishments, working closely with the City to build and maintain our joint status as the nation's leader in innovative waste diversion programs. Together we have made great progress over the last several years. San Francisco had set a goal of 75 percent diversion by 2010, and we are pleased the City exceeded that goal by achieving an 80 percent diversion rate for 2010, again affirming the City's national environmental leadership. The City was recently named the Greenest City in North America, in large part due to its 100 percent score on the waste diversion and resource management portions of the evaluation.

The City has an even more ambitious goal of Zero Waste by 2020. Meeting this challenge will require significant changes to the current service and rate structure, along with new facilities and processing capabilities. The attached rate application represents a meaningful step towards reaching that goal.

One of the key elements of the rate application is the proposal to make structural changes to both residential and apartment rates in an effort to establish a more sustainable revenue stream. Since rates were last set in 2006, there has been significant migration from trash (black bin) service to diversion (blue bin and green bin) service. The migration was a result of Recology customers' embrace of the existing diversion programs, driven further

by the City's mandatory recycling and composting ordinance, which became effective in 2009. Under the existing rate structure, this migration resulted in reduced revenues, since customers reduced black bin service and utilized diversion services that are currently provided without additional cost to the customer. At the same time, the Companies' costs have increased as a result of providing expanded diversion services along with inflationary changes. As we continue to move towards zero waste and the trash stream continues to shrink as a percentage of total service, it is vital that the rate structure evolves to apply charges to all services. The specific costs of providing service (labor cost, vehicle costs, etc.) apply to all types of service, irrespective of the color of the bin or the materials inside. At the same time, the proposed structures continue to promote diversion services, along with encouraging source reduction, both important components of the City's Zero Waste plan.

The application includes a request for an overall increase of 21.51%. This increase is intended to apply to all customer segments. Due to the varying structure of each customer segment and the varying levels of service currently being provided, customers may see individual adjustments more or less than the 21.51%. The requested increase percentage reflects a reduction from the draft application of 2.24%. This reduction is a result of revenue and cost adjustments included in the final application based on input from City staff, the ratepayer advocate and the public.

Another key element of the rate application is the inclusion of costs associated with processing compostable materials that customers still deposit in the trash (black) cart. This additional processing activity is an important part of the diversion program, since a significant portion of the trash stream is compostable. Operating costs for additional black cart processing, along with planning and entitlement costs for new facilities, are included in the Recology San Francisco projections.

The proposed residential rate structure includes some significant changes. The current charge, although it covers all residential service costs, is calculated solely on the volume of the black cart. The proposed structure will include a fixed charge, based on the number of units in any building (residential service is defined as any building with less than 6 units), a small volumetric charge for blue and green bins, and a charge for the black bin. Residential customer rate increase percentages will vary depending on the composition and volume of service. The typical household (32 gallons of each service) will see an increase from \$27.91 to \$34.51 per month. A typical 20-gallon customer will see an increase from \$21.49 to \$24.94 per month. This proposed structure is a step towards aligning the rates charged with the cost components for residential service.

The proposed apartment structure also includes some significant changes. The proposed structure is similar to the discounted-volumetric structure currently employed in the commercial sector. The new structure also includes a fixed charge for each dwelling unit. This structure is intended to charge equally for each type of service and provides

discounts for diversion services. The discount, up to 75 percent of the volumetric portion of each bill, is based on diversion volume in excess of 10 percent as a percentage of total volume. This approach is designed to encourage apartment customers to increase their diversion services. To partially mitigate the impact of implementing this structural change, the Companies are proposing to include a two-year cap for all apartment customers. The first year cap would limit the increase under the new structure to 25 percent of current charges, moving to 50 percent in the second year, and finally 100 percent, or the full effect of the structure, in the third year. The caps will allow ample time for customers to embrace the new structure and adjust service levels to mitigate further rate increases. It is anticipated that changes to service levels and configuration will offset any additional revenue generated by the removal of the caps.

The rate filing explains the need for higher rates to address increased costs and lower than anticipated revenues, and also describes the rate structure proposals discussed above. The last rate adjustment was effective July 1, 2010, and in the three-year period leading to the requested rate adjustment, costs have increased with inflation and the expansion of diversion programs. The proposed rate adjustment is also intended to reset the rates to account for the impact of more diversion services than were anticipated in the last rate, due to migration and the mandatory recycling ordinance. The Companies also seek to recover additional costs associated with expanded City programs and services.

Adjusting for inflationary cost increases, providing new diversion programs and support for City programs, and resetting the rate structure to help account for some of the unrealized program revenue due to migration to diversion services will require a revenue increase of approximately 21.51 percent from each customer segment (residential, apartment and commercial). Since each of the segments is proposed to employ a slightly different structure, the exact increase could vary slightly. In addition, due to the fact that rates are dependent on volumes and service configuration, individual rate changes will vary. Finally, rates will vary as the increases are based on current service levels, which are expected to change with implementation of the new structures. The Companies will endeavor to work with customers to increase diversion services, which in many cases will partially mitigate the rate increase.

The rate application follows the general rate-making methodology utilized in past rate processes. A thorough presentation of Company expenses, proposed program changes and impacts of the proposed new rate structures are included in the application. Company representatives will be available to explain the content of the application and answer all questions related to the submission.

The application presents Recology Sunset Scavenger and Recology Golden Gate as a single entity for rate setting purposes. This is consistent with the last rate order and with the reports the Companies have submitted since the completion of the last rate process.

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The Companies have created a new Web site specifically to make facts and information available to customers about the rate application and the impact on rates for refuse and recycling collection. By spending a few moments at www.SFZeroWasteRates.com, customers can quickly see what rate dollars pay for, rate comparisons to other Bay Area cities, and the factors contributing to the need for an application to increase collection rates.

We believe our rate filing is complete in accordance with the Refuse Collection Disposal Initiative Ordinance of the City and County of San Francisco, the April 6, 2006 Directors Report, and the Department of Public Works Order No. 180,851 (Rules of Procedure: Refuse Collection and Disposal Rate Hearings"). We have advised City staff that reports from experts and consultants relevant to the application will be forwarded to the City as completed.

We look forward to further review and discussion of these matters and we are happy to respond to any questions you or your staff might have.

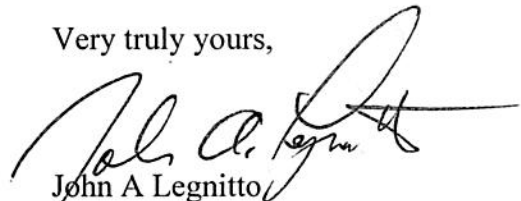
Please be advised that communications regarding this draft application and later applications, including notices of hearings, should be sent to the following persons:

Michael J. Baker
Gabriel N. White
Arnold & Porter LLC
Three Embarcadero Center, 7th Floor
San Francisco, CA 94111
mike.baker@aporter.com
Gabriel.white@aporter.com

John A Legnitto
Jon Braslaw
John Glaub
Recology Sunset Scavenger
250 Executive Park, Suite 2100
San Francisco, CA 94134

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Very truly yours,



John A Legnitto
Vice President and Group Manager
Recology Sunset Scavenger, Recology
Golden Gate and
Recology San Francisco

cc: (w/o encls.)
Mohammed Nuru, Director, Department of Public Works
Douglas Legg, Manager of Finance and Budgets, Department of Public Works
Melanie Nutter, Department of the Environment
Robert Haley, Department of the Environment
Thomas Owen, Esq., Deputy City Attorney
Jon Braslaw
John Glaub
Michael Baker, Esq.
Gabriel White, Esq.