DEPARTMENT OF PUBLIC WORKS
DIRECTOR'S HEARING ON PROPOSED REFUSE RATES
2013 REFUSE RATE APPLICATION

CITY HALL
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Monday, May 20, 2013 9:04 a.m.

P R O C E E D I N G S

DIRECTOR NURU: Let the hearing please come to order.

Good morning, everyone. I am Mohammed Nuru, the Director of the Department of Public Works for the City and County of San Francisco. Let the record show that today is Monday, May 20th. The agenda for today is on the table on the side.

This is a continuation of the Director's Hearings on Recology's application for an increase in residential refuse collection and disposal rates. On March 14th of this year Recology filed an application to raise residential rates with the Chair of the San Francisco Refuse Collection and Disposal Rate Board. The application was referred to me for hearings which began in April.

On May 10 staff from DPW and staff from the Department of Environment issued a staff report. Copies are also available on the table. The staff report is the focus of these final two hearings. I will hear the testimony, cross-examination, and rebuttal of staff's recommendations and consider all the evidence, including public testimony, before making any recommendations.

We have Mr. Freddie Reppond transcribing our

meeting this morning. I want to remind everyone who speaks to come forward and speak clearly into the microphone so that he can take your entire testimony. Please do not speak from your seat in the audience.

One more piece of housekeeping. I'd like the DPW clerk to make an announcement concerning DPW's efforts to comply with Title VI of the Civil Rights Act and ask your cooperation with the public participation survey.

Ms. Bonnie Brugmann, please proceed with your announcement.

MS. BRUGMANN: DPW is conducting public hearings to gather input on residential refuse rates. A voluntary public participation survey is being distributed at this meeting for all in attendance to fill out. The information on the survey is being collected in order to comply with Title VI of the Civil Rights Act of 1964, nondiscrimination in federally assisted programs.

As a recipient of federal financial assistance, DPW is required to collect analyze data on ethnicity, race, sex, age, and disability. The data you provide will enable DPW to ensure that residents and communities impacted by this project have been included in the decision-making process. The information will

not be used for any other purpose.

Please check the appropriate boxes which best describe you. Submittal of this information is voluntary. When completed, please drop the survey in the box.

Thank you.

DIRECTOR NURU: Thank you, Bonnie.

So let me briefly outline the order of business for the final two hearings. We will begin today with a presentation on the staff report. We will then have cross-examination of the City staff by the companies and by Mr. Peter Deibler, the Ratepayer Advocate. The companies will then begin their rebuttal to the staff report. We will continue the presentation of the companies' rebuttal on Wednesday, if necessary, followed by cross-examination by the Ratepayer Advocate and the City staff and any redirect on the issues raised by either party.

As in prior hearings we reserve the last period of each day for public comment. Speaker cards are available at the table. I ask you to fill them out so that I have an indication of the number of people wishing to speak today. You may also convey your comments to Mr. Deibler.

Are there any questions? Okay.

If not, I'd like to ask Mr. Douglas Legg of DPW to present the staff report.

Douglas, please proceed.

PRESENTATION OF THE STAFF REPORT

MR. LEGG: Thank you, Mr. Nuru.

Before making the presentation, I would like to introduce a number of exhibits, including the staff report itself. And we'll be handing those out as I start talking.

And, Tom, do you want me to run through all of them or do you want to accept them one at a time, because I'd like to describe what they are.

MR. OWEN: Why don't you describe each one, but do them as a group.

MR. LEGG: Okay. Exhibit 65 is a copy of the staff report itself. And the next exhibits that I'm going to introduce are all referred to in the staff report.

Exhibit 66 is an operating ratio study that was performed by the consulting firm HDR Engineering. It's dated March 11, 2013. This was done under the auspices of the Department of Environment here in the City.

Exhibit 67 is an email from a staff person in the City Controller's office. It describes the City

planning department's development pipeline. And attached to it are a number of spreadsheets showing all of the larger buildings that are either under construction, in planning, or have been approved for construction.

Exhibit 68 is a spreadsheet that shows the distribution of apartment customers. And it shows -- I need to go back and look and see where this is referenced, what exactly --

Robert, can you help me out? It's a detail of the cap rates and number of customers that are subject to the caps and what would happen if there were no apartment caps.

MR. HALEY: It's referenced in the apartment revenue projections.

MR. LEGG: Exhibit 69 is a description from the consulting firm Towers Watson about the transitional reinsurance fee. This is the subject of an adjustment that staff are recommending in the health and welfare section.

Exhibit 70 is the independent auditor's report on applying agreed-upon procedures by Calvin Lui, CPA. This was also under a contract with the Department of Environment. And Mr. Lui's report looked at the total management expenses and also lease expense and the

appropriate allocation thereof.

Exhibit 71 is a description of the cost of natural gas. It's issued by Pacific Gas & Electric; and it's effective April 1, 2013.

Exhibit 72 shows the calculations of staff's proposed COLA mechanism.

Exhibit 73 is a letter to the Department of City Planning and a finding by the Planning Department that this rate application is not a project for CEQA guidelines; and it's signed April 11, 2013.

There's one more exhibit, 74, that we will be introducing later.

MR. OWEN: We will receive those documents in evidence numbered as noted by Mr. Legg.

(The documents referred to were marked and received into evidence as Exhibits 65 through 73.)

MR. LEGG: As we've discussed in earlier hearings, the staff review of this application began with the submission by the companies of the draft application on December 11, 2012. We have a 90-day review period where there was an extensive request for information by City staff and consultants and a public workshop on that draft review where staff, consultants, and the public were understanding what was being

requested by the companies; and the companies had an opportunity to make corrections and revisions to their draft application.

That review of the draft application resulted in a number of items being removed or reduced in the draft application. And so as a result when the final application was submitted in March, the application already was requesting a tip fee that instead of $159 per ton was about $150 per ton; and instead of rate increase on average for average revenue required by companies of 23.75 percent, the final application required a smaller increase of only 21.5 percent.

Once we received the final application, we continued that process of examining the costs of looking at the historical figures and audited data. We held another public workshop. And we held four of these director's hearings.

As a result of that, staff has made a number of recommended adjustments based on the information that we had at the time that the staff report was produced. The primary changes are listed in the staff report on pages three and four. I'm not going to go into great detail because the staff report is available and it is a pretty clear document.

I will just mention that the primary

adjustments to the disposal and processing company, Recology San Francisco, were a reduction in the compostable tipping fee, an adjustment on lease terms, a reduction of staffing levels at the recycling facility, and removing the green-bin recycling fee from being eligible for operating ratio, removing from operating ratio expenses.

On the collection side, the primary differences between the staff's recommendation and the proposed application are a projection that staff has made of increased apartments on the revenue side both due to a large amount of construction of residential units that are scheduled to come on line this year; and also because staff has made an adjustment to the companies' proposed assumptions about apartment migration.

Other significant changes on the collection companies' side are the reduction of two shops' clerical positions, an estimate for a lower prices of CNG, and some alterations to the pay per setout program. There are also some smaller adjustments to health and welfare and other costs that are in the staff report. But these are the main things.

The other main recommendations of the staff report, besides these adjustments to costs and revenues,

are a number of changes to the proposed COLA mechanism that will be used to adjust these rates until the next rate process on an annual basis; some changes in the zero waste incentive program; and also findings on two proposed contingent schedules. One was a zero-waste facilities expansion project that was Contingent Schedule 1. Staff is recommending that that contingent schedule not be approved at this time. And the second contingent schedule was for the so-called west wing project that was Contingent Schedule 2; and staff is recommending that that contingent schedule be approved as submitted.

We have also made some recommendations about additional reporting and also future rate-making procedures because we are, based on discussions that we have had anticipating that the city's landfill contract is going to reach its contract capacity before the next rate application, would be coming in -- we were assuming a full rate application in three years. We anticipate the disposal agreement and transportation costs are going to have to be revised probably in two or two and a half years. So we are making recommendations for procedures there. When we have that process, because there are a number of questions about revenues both because of development and growth and also because of

changes in service structures and unknowns about migration, we also are going to need to look at what the total revenues are looking like for the company to make adjustments there. So we are not suggesting a streamlined rate application, but we are suggesting that the number of issues that will be considered are much smaller than the number that have been considered in this rate process; and so a little bit less time will be required.

The staff report concludes with responses to comments from the public and some that have come through the Ratepayer Advocate. And we will be including responses to additional comments and also the Ratepayer Advocate's comments and recommendations in the director's report.

And that's the summary of the staff report.

DIRECTOR NURU: Thank you, Mr. Legg.

I would now like to invite the companies to cross-examine City staff and the consultants on the staff report.

Mr. Baker, why don't you step up to the dais and let us know which staff members you would like to begin with and the issues you'd like them to address. We'll proceed through the City's witnesses in whatever order you choose.

MR. BAKER: Thank you, Mr. Nuru, and good morning.

We have two staff members we'd like to ask questions of: One Kevin Drew and one Douglas Legg. With regard to Kevin Drew, we have a few questions about the pay per setout program. And with Mr. Legg, I want to ask a few questions about the abandoned material program and the performance standards and penalties that are proposed in the staff report. So those are the two areas we would like to explore a bit.

DIRECTOR NURU: So I believe we will start with Mr. Legg.

DOUGLAS LEGG,

having previously been sworn, appeared and testified as follows:

CROSS-EXAMINATION

BY MR. BAKER:

Q. Good morning, Mr. Legg.

A. Good morning, Mr. Baker.

Q. So I'd like to ask you just a few questions about the abandoned material program and the staff's views on how that would work and see how we can best reconcile with Recology's proposal.

Just to review a little bit, currently abandoned material is picked up by City employees; is

that correct?
A. In most cases it is. Recology does it on the first weekend of the month, assisting in what we call Zone B with responding to 311 calls and picking up abandoned materials. It's the first weekend of the month, which is scheduled basically around apartment move-outs. And I believe that we also have Recology pick up so-called white goods -- appliances and that sort of thing -- in some cases. But most of it is picked up by City employees.
Q. And in terms of City employee pickups, that is through the Department of Public Works?
A. Correct.
Q. And these are triggered by calls to the City telephone line 311?
A. They are triggered by calls to the City's 311 line; but, also, our staff are roaming around the City and also they're calling in requests. And, finally, the packer-truck drivers, if they see abandoned materials as they're driving through areas where we know what we have a problem, they stop and pick those materials up.
Q. Now, currently the City employees who pick up the abandoned materials, do they also do other jobs in the City?

A. They are -- I guess I'm not sure what you mean. They're truck drivers, general laborers. There are times when those truck drivers who are normally assigned to what we call a packer route, which is what my kids call a garbage truck, they are reassigned to do street sweeping in a street-sweeping truck, so that happens on occasion.
And I should also mention that the packer drivers are responsible for picking up abandoned waste after major events -- the St. Patrick's Day parade, the Pride event -- that kind of thing. That's really in answer to your previous question.
Q. What sort of records does the City maintain regarding calls to 311 regarding abandoned material and the time it takes to pick up that material?
A. The City has extensive information, not only about the 311 calls, but also calls that are internal to the DPW as time stamps as to when illegal material dumping has been reported and then when a driver picks up that material, the service order as we call it, is closed out. And we have those records for each individual report going back at least five years. So we have all that information in the database.
Q. I think one of the exhibits that the City offered in the earlier hearings was a record of the

number of calls about abandoned material that the City has received over the last few years. Am I right about that? I think it was Exhibit 17. Does that sound right to you?
A. Yes. We had an exhibit. I don't remember the time period it covered, but it did show numbers and distribution -- geographic distribution of those calls.
Q. And as I recall, the number of calls over the past few years has been in the range of 17 to 19,000 per year; is that correct? You can look at Exhibit 17 if you want to make sure.
A. I believe that's correct.
Q. All right. While Ms. Carey is checking on that, I'll ask you another question.
And have you or your staff done an analysis of response times?
A. We have.
Q. What did you find?
A. We found that most of the calls are picked up within the first day of receiving the call. We found that most of the time we respond to all calls. We respond to 85 to 90 percent of those calls within 48 hours and we have data on how many calls are responded to within different time bands.
Q. You found some calls had not been

responded to within the 48-hour period. Some had extended beyond that?
A. That's correct. In the last year we have had a more challenging time in responding to all those calls.
Q. Why has it been more challenging in the last year?
A. We have had a greater need for street sweeping and we have had not the staffing levels to support all of the jobs that our truck drivers have to do. It's mostly been a staff issue.
Q. Now, am I right that the City suggested to Recology the possibility of Recology taking over this function from the City?
A. Yes.
Q. And Recology agreed to make a proposal to do that, correct?
A. Yes, they did.
Q. And that's what we are talking here today, because it was part of the rate application?
A. I believe that's what we are speaking about, yes.
Q. Now, the Recology proposal is that on weekdays Recology will set as a goal a four-hour pickup from being notified of a 311 call. And on weekends an

eight-hour turnaround; is that right?
A. That is my understanding.
Q. To your understanding, does Recology's proposal assume that the volume of calls and the volume of material that needs to be picked up by Recology trucks will not change significantly during the future period?
A. I believe that their proposal was based on existing levels of illegal dumping, yes.
Q. And Recology made the proposal -- and was happy to do it -- but Recology's concern that I want to talk about a little bit now is the notion of a performance penalty if the four-hour and eight-hour targets are not met, which is the proposal contained in the staff report. And the penalty is that if Recology does not meet these standards as laid out in the staff report, that Recology would in effect give back its profit margin on this program in the future COLA adjustments. Is that a fair summary?
A. I would say that, depending on how many of the calls they're not able to meet, they would give back some of their allowed profit. And if they fell below 75 percent of meeting all calls, they would essentially be returning all of the profit, but it is a graduated proposal.

Q. Right. So I guess the question is, in developing these proposed performance standards, did the staff consider the possibility that the volume of calls and the materials will increase in the next one to three years?
A. We did not.
Q. And do you think that is something that should be considered?
A. I think that the proposal could be modified to allow for an increased number of calls or a substantial increase in tonnage such that the resources that Recology has proposed would actually need to be increased in order to meet that demand.
Q. I guess along those lines, one thing that concerns Recology -- and my question is whether the staff considered the possibility that, as Recology trucks become more responsive and residents see that, whether there will be more activity because residents feel it's not a waste of time to call the City because something will happen right away? Is that something you think worth considering as a possibility here in terms of deciding how this program might work in the future?
A. I think that's debatable. Residents see City trucks with the DPW logo picking up materials. It certainly -- there may be some people that think that

this is a fine option to just run out and dump things on the street because DPW will pick them up. But I don't know that Recology taking over that service is going to cause that.
We also in this, as part of this rate, are proposing in the education, compliance, and outreach program, which we have not had and we hope will actually reduce the number of calls that are coming in, so perhaps Recology would have a smaller volume of calls in tons that would be picked up in the next one to three years, if those efforts are successful.
Q. And I grant you the possibility that would occur. But I guess it drives home the point that I have that we do not really know what's going to happen. Therefore the next three years, with regards to these abandoned material program, whether calls will go up, volume will go up, calls will go down, volume will go down. We're in a bit of uncharted waters here, aren't we?
A. We are with the whole rate process, I believe.
Q. Yes. But this is the only one where the staff is proposing a penalty for not achieving the goals that I think the staff and Recology share.
A. Well, there are other incentives that --

we call them incentives, but they look like penalties, also, in terms of operating ratio not achieved. But this is a new program and with it comes this proposal.
Q. I guess one other question about uncertainty going forward, as I understand it, under the 311 agreement can residents use their mobile devices to photograph graffiti and send that into City to have it fixed?
A. Yes.
Q. And has the City given consideration as to whether that opportunity would be provided to residents for abandoned material as well?
A. I believe that that is possible now. I think that any kind of report to 311 can have photographs and I've seen 311 reports with mobile devices reporting illegal dumping, for stoplights that are out, or any manner of city problems, so I know that it exists today.
Q. Am I right that that makes it a lot easier for city residents to notify the City of problems to be addressed than to call on the and telephone wait for an operator to come on the 311 number?
A. Well, not between now and -- I mean, compared to years ago, yes. But compared to recent years, I believe the 311 call time for years have been

mostly under 60 seconds' wait time in the staff report. So I don't think that is a significant change between prior to this rate going into effect and after the rate going into effect.

Q. In any event, is it fair to say that the ability of people to report abandoned waste through this mobile 311 app creates the potential for more volume of calls and more volume of material?

A. I don't believe so. I believe that that technology is in place I don't have any reason to believe that there's going to be greater saturation of mobile devices that people would use in that way. I might be wrong, but I have not seen any trends about that.

Q. In the proposal in the staff report was consideration by the staff given to the possibility of waiting on a possible penalty program until the next rate hearing to give Recology and the City a chance to sort out exactly how this new program is going to work and whether or not there's actually going to be problems with response times or not?

A. We gave consideration to that. In fact, staff's recommendation is that these penalties would not be applied until the Rate Year 16 rates. So essentially we would have a cutoff in April, but it's nearly two

years of experience before any penalties would apply. So we think that a 20-month period is adequate to get the program in order.

I'd like to also mention that Recology's using twice the number of trucks that the DPW is using for providing this service. And when I was questioning Mr. Quillen on this subject, he said it could be that those trucks are going in separate ways, but that it would take some time to figure out whether trucks need to be always in tandem or whether they could be separated for part of the day. And we believe this extra time before we're applying penalties gives the companies enough time to work out those bugs.

Q. I don't have the staff report in front of me, but isn't it so that, while COLA adjustment would not occur until Rate Year 2016, it's based upon the company's performance vis à vis the response times during Rate Year 14?

A. It says in the preceding years, so it would be for a one-year period beginning April 1, 2014. So there's about six months -- six to eight months -- to get up to speed and then we start counting, yes.

MR. BAKER: So to close this line of questioning out, what we would ask staff and the Director to consider is whether or not Recology's

concern for its reputation in the community for providing good service is not a sufficient motivator for Recology and the City to work together to make this new program work; and you don't need penalties, or at least we wait till next rate hearing to determine whether they're necessary, rather than putting Recology, which didn't ask for this program in the first place, at risk of losing all of its profit margin on a new, untested program. And if it turns out to be more expensive and popular than people may expect and therefore more costly, Recology would not only risk losing its profit margin, but its expenses would exceed what it's being paid here.

So the question is whether or not we take a wait-and-see attitude to see how this program works before coming up with performance standards and penalties in a situation like this.

Thank you.

DIRECTOR NURU: Thank you.

MR. BAKER: So then I have couple of brief questions for Kevin Drew, if he's here.

KEVIN DREW,

having previously been sworn, appeared and testified as follows:

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CROSS-EXAMINATION

BY MR. BAKER:

Q. Good morning, Mr. Drew. I just want to ask you a couple of questions about the pay per setout program and in particular the recommendations in the staff report that the amortization period for some of the expenses in that program be lengthened from three years to seven years.

And do you have the exhibits there, by any chance? Exhibit 39 is the one you focused your attention on at this point.

A. I got it. Go ahead.

Q. So Exhibit 39 is one that describes this program. And as we have had testimony before, it's already underway in some neighborhoods. This is expanding it to some additional neighborhoods as a way of testing the program, am I right?

A. Yes.

Q. And one of the proposals by Recology is to expand it into three additional routes. I think in the staff report staff thought two would be adequate. Am I right?

A. Right.

Q. And Recology is willing to go along however the staff wants to do this and the Director wants to do so this. But I thought it would be helpful if you described a little bit more why staff concluded that two would be adequate.

A. Sure. Our biggest concern is simply the cost associated with the whole program. And thinking about rolling it out across the whole city is what we're ultimately looking at. So we need to be mindful of that cost and be as conservative and as efficient as possible in this early stage. We felt that we could get enough information from the existing pod and the two additional ones to be able to begin the analysis that it will take to look at the future of the program.

Q. And as to the pod that would be eliminated, if it was three instead of two, do you know which neighborhood that would be?

A. No. Frankly, we have not had enough time to sit down with the company. We've been involved in the rate hearings to analyze the report they have and begin to formulate the next steps.

Q. If the cost was not an issue here, what additional benefits do you think there would be from three versus two?

A. Well, just if there may be permutations of the program in the depth of the discount, the ways that we implement in each neighborhood could be a little

different.

Q. Now, Exhibit 39 is the one that lays out the cost of expanding the pay per setout program. And it has four different components, I believe, to it. One is the cost of hardware to be installed in the trucks. Second are the new tags that are to be fastened to the bins. And the third is installation costs to install the tags. And the fourth is an outreach program.

A. Yes.

Q. So the first cost, hardware cost, Recology proposed that that have a seven-year amortization period. And I assume staff agreed with that.

A. Yes.

Q. But the other costs, that is the cost of the tags, which are around 40 cents a piece, I think --

A. Fifty cents a piece.

Q. -- and the costs of installing them, Recology proposed a three-year period and staff is suggesting seven. It's kind of digging in the weeds, but it means money. So it's an expense. You understand that from an accounting standpoint Recology has to expense all of those costs in the year they're incurred. That is the cost of buying tags, the cost of installing them, the cost of outreach. You understand that.

A. Sure.

Q. So Recology proposed three years because that is the anticipated period of time before we come back in for a new rate hearing; did you understand that?

A. Yes.

Q. So why does staff propose extending that to seven years rather than three?

A. Thinking about what we are actually doing, the carts themselves have a seven-year lifetime. The RFID should have a lifetime beyond three years, though we have to learn from experience exactly what that is. And the implementation of both installation and the outreach is something that, if we were rolling this out city-wide, we would do it once and it would stay in place till we change the program, which can be any number of years. So our view was to think about this as it would to be applied across the whole city not just whatever the next rate period happens to be. So we just tied it basically to that equipment and that initial setup.

Q. So when the tags are installed in the carts, some of the carts might be new carts that could be expected to last seven years; but some of them might be old carts that are going to be thrown away in a year or two.

A. That's possible, though I believe the

staff that was implementing in the field was making those calls as they were out there and for instance replacing a cart if they found an old one. And one of the thoughts we had was whether in some instances a new cart would even be worthwhile because of the cost of drilling out and putting in the old ones was so expensive that simply replacing carts with a tag already in them could be an option.

Q. So the staff as part of this program is assuming that Recology might be replacing carts sooner than it would ordinarily because of the existence of this tag program?

A. No. I think what you just said was if there was a cart that only had a year's life left in it you wouldn't bother installing into a beat-up cart a tag that you hope would last five to seven years, eight to ten years.

Q. Well. I'll stay away from one year. I was trying to make a different point. The point is that the idea is that the tags are to be installed in every cart in the neighborhood that's being tested; isn't that right?

A. Right.

Q. So every resident will have option of not putting out their garbage every week, right?

A. Right.
Q. So you put a tag in a cart, whether it's an old cart or new cart. Your point is that if it's a really old cart, maybe just throw the cart away and bring a new one in. But what if the cart's three years old? It's going to be replaced in two years or three years? My point is that you would agree, wouldn't you, that some of these tags are not actually going to remain in use for seven years.
A. I think certainly some of the tags won't last seven years, but some of them would last fifteen years, if the program runs that long.
Q. Because of the fact that the tag only costs 50 cents and there's labor involved in removing it and putting a new one in, it would not be unreasonable for Recology in replacing a cart just to have a new tag already in there rather than take an old tag out of an old cart; do you agree with that?
A. Yes.
Q. So we really don't know whether these tags are going to remain in use for seven years or not.
A. No. That's part of what we are learning.
Q. And it's possible, isn't it, also that if Recology comes back for a new rate application in three years that maybe there will be a new and better idea for

pay per setout or for modifying frequency of service that perhaps would make this tagging system not useable anymore or subject to significant change? Would you agree that's --
A. That's a possibility.
Q. So I guess in view of that question is there a principled reason for lengthening the amortization period seven years when you're talking about an expense that is to be accounted for the year it's incurred under accounting conventions and where we don't really know how long they are going to last and we're going to be back here in three years anyway?
A. Well, I think simply, as I stated earlier, that we're looking at the cost as the program rolls out over the whole city. And we're not really seeing this as a stab in the dark. It's a well-thought-out proposal and program. So we thought we could use a similar methodology as we would in subsequent rate years when we come in for the whole city. It's as simple as that.
Q. So in other words the assumption underlying this is that when Recology comes back with another application in another three or so years that this program will be sufficiently successful that it will used throughout the city?
A. Or at least that we'd use that

methodology, the city-wide methodology, with that longer amortization view.
Q. With the same tags and the same equipment?
A. Right.
MR. BAKER: Thank you, Mr. Nuru. Nothing further on this point.
DIRECTOR NURU: Okay. Thank you, Mr. Baker.
Cross-examination of City staff completed, Mr. Deibler, would you like to ask any questions of City staff? So please come to the podium.
MR. DEIBLER: Good morning, Mr. Nuru. Good to see you again. I have a few questions primarily for probably Mr. Legg. I do have -- it may be useful for me to follow up with one or two quick questions to Kevin while he's up here following pay per setout, start with that.
DIRECTOR NURU: You may begin with Kevin.
MR. DEIBLER: Okay.

CROSS-EXAMINATION OF CITY STAFF BY RATEPAYER ADVOCATE

MR. DEIBLER: This has to do with implementation of the program, so a series of questions. Do you plan to require submittal of quarterly data?
MR. DREW: I'm sorry?
MR. DEIBLER: Will you require submittal of quarterly data or ongoing data reporting regarding --

MR. DREW: It's more on an ongoing basis. As a research project, we'll be looking at it as we get information, basically.
MR. DEIBLER: Will the data allow you to isolate the costs of the program to discreetly say what this is, what this costs?
MR. DREW: It's hard for me to predict, but that's what the intention is. But whether we'll isolate something or not it's hard to say.
MR. DEIBLER: Would it be feasible to post updates about the progress of the pilot on your Website?
MR. DREW: We don't do that with any other program at this point, so I'd be reluctant to promise that we could be updating data that we don't even construct yet. But certainly we have regular quarterly reports, for instance, that the company provides. That information could be included in that.
MR. DEIBLER: Just in a summary form. It doesn't have to be a separate detailed discussion, if that's feasible.
At this point do you have plans for the follow-up? I know it's the hope to be able to go city-wide. Do you have any sort of gut sense at this point?
MR. DREW: It's too early to tell. Again, we

want to get the information and spend some time analyzing it before we start making predictions.

MR. DEIBLER: Thank you. That is all I had for Mr. Drew.

DIRECTOR NURU: Okay. Thank you. You may proceed with Mr. Legg.

MR. DEIBLER: Maybe I could step back for just a moment. Let's introduce a summary of the staff report that I prepared and it's on the Ratepayer Advocate Website. There's a few copies up here. Could we enter it as an exhibit?

DIRECTOR NURU: Yes.

MR. LEGG: Tom, could we reserve No. 74 and have this be Exhibit 75?

DIRECTOR NURU: Okay. So we're reserving Exhibit No. 74. And this exhibit will be labeled as 75; is that right, Tom?

MR. OWEN: Yes.

(The document referred to was marked and admitted into evidence as Exhibit 75.)

MR. DEIBLER: Maybe just for continuity, I'd like to talk for just a moment about the abandoned materials program and then go back and walk through the staff report, if I may.

And on abandoned material I really just wanted to say that I think I'd support some form of incentive or disincentive. Certainly it makes sense to allow flexibility. I can understand some of the questions and concerns that were just raised. I think it does need to be -- whatever form it does take, it's significant enough that it really is a disincentive. At the same time I understand that it's a high-profile program and I think it's one that certainly Recology would like to excel at. So thank you.

Just a quick overview comment. I have some comments that really have to do with the interim period between now and the next rate review and things that either could be asked or specified as part of the rate order or possibly can be done in an interim manner before the next rate order. So I will try to isolate those and talk about those at one point for efficiency.

MR. DEIBLER: Revenues in general, Mr. Legg, I just want to make sure I understood. I think I heard you say in your overview that you'll be tracking revenues closely and that if in any way they exceed the projections for whatever purpose or whatever reason that that would be a trigger for a streamlined review. Is that an accurate statement?

MR. LEGG: Not precisely. We are expecting a

rate application that would probably be arriving in about two years, to be effective in January 2016. And so in order to meet that deadline, we'd be seeing that application close to two years from the time these rates will take effect. And what I've suggested is that we'll do a rigorous review of revenues and expenses at that time to make sure that there isn't what I would call excess profit by the companies above the allowed operating ratio; and we would make an adjustment again at that time.

I would add that the 1932 ordinance allows any party, including the City, to make a rate application. And if there were -- if there were really extraordinary revenues and costs that were not connected with increased costs due to additional collection and processing and disposal, that the City would consider requesting a rate adjustment. But I think that would only be in a case where suddenly we're seeing very large revenue increases without commensurate expenses coming up. So we do get quarterly reporting on both expenses and revenues. We do monitor those things. And the '32 ordinance provides a safeguard.

MR. DEIBLER: Okay. On apartment migration specifically, there's a statement, quote, That staff does not believe the new apartment rate structure and

overall rate increase will have as much impact on the revenue as rolling out composting to apartments already has had. And that was an average of 1.4 percent migration. And staff is recommending no more than 1.4 percent be approved or assumed in developing this rate order. I'm just wondering why it shouldn't be less than 1.4 percent.

MR. LEGG: I'd like Mr. Drew to respond to that.

MR. DREW: Sure. There's not a hard number. Actually, the 1.4 is a hard number that we've seen over the last few years. Given the balance of impact from the migration that the company contends will happen because of apartment owners doing what they would do, balanced with the work that we've already done, we felt that that was the only number that made sense. We were -- I guess we would consider going lower, but we didn't have anything to pin that to either. That's where we're at.

MR. DEIBLER: Okay. Thank you.

On the apartment rate caps, perhaps I'm misunderstanding, but quickly to quote, To mitigate such a revenue shortfall there's a reference earlier to the potential for revenue shortfall when caps come off. Staff recommends that one half of the total potential excess revenue be returned to the rate base in the annual COLA adjustment process.

Mr. Legg, what is the basis for the fifty percent in terms of return, not a hundred percent?

MR. LEGG: In the first year it's actually more than 50 percent because we took the total amount of potential revenue in that exhibit that I was struggling over earlier. And so when the 25-percent cap is lifted a year from now, the companies, if nobody migrated, would achieve about a little over $3 million as we understand it. Then in the second year that will be an additional 1.2 or 1.3 million. So we're actually recommending more than 50 percent of those revenues in the first year and exactly 50 percent of revenues in the second year.

As Kevin was saying, we don't know in this process what the actual revenues are going to be, what the actual expenditures are going to be. All we can do is look at the trends, look at the companies' data that they have provided us, and make the best estimate that we can. And we felt that that was the most reasonable thing to do considering the magnitude of the rate increase to some customers when the caps are removed. But there is no -- we have no science.

MR. DEIBLER: And so 50 percent is just and

reasonable to Recology based upon the fact that there's other risks, there's other revenue that they may not achieve? Is that some of the thought in rebating 50 percent and not more?

MR. LEGG: We don't know that revenue will all be realized, so it's not that we are saying you could keep 50 percent of this excess revenue. We're saying that we think about 50 percent of that revenue will be realized and that should be returned to the rate base. We're not asserting that Recology get a bonus of any kind. We are asserting that we think, based on the information that we have, that this is what the revenue will be. That's why that's the amount of revenue that we're suggesting you return to the rate base.

MR. DEIBLER: I have several specific questions on 8.1, collection company's labor. There's a recommended reduction of one FTE for customer service representative to reflect the efficiency of having one call center instead of two. Let me read just the basis for the number of one, the reduction of one FTE.

MR. LEGG: Mr. Drew.

MR. DREW: That reduction wasn't just because of the call center change. That was partly due to rolling back the pay per setout, which was also going to generate additional calls. We also felt, as in the last

topic about migration, that the question of how many calls there might be that the apartment issue was going to raise would be less. So it was a combination of things, not just that one efficiency around the call center.

MR. DEIBLER: Okay. And, again, you felt like one FTE is a fair amount?

MR. DREW: Yes. I mean there's -- this is a complicated rate change that we're going through. We know there will be calls. At the same time we looked at the call center data from the companies and didn't see crazy increases to date, so they were holding their own. They have added staff already. So, again, we felt this was the right course.

MR. DEIBLER: Okay. The third paragraph of that same item, collection company's labor, refers to recommending -- or in effect recommending -- an additional 4.6 FTE for maintenance, which is a 10-percent increase in staffing. I think a 12-percent increase was requested and it is reduced by one FTE. I was just wondering about the rationale for that.

MR. DREW: That's me again.

That's the truck drivers primarily around the mechanics and replacing retiring mechanics, finding qualified replacements for those, and the change in

trucks to a new CNG technology was going to require additional both maintenance and new maintenance. So the company had already achieved a considerable chunk of those changes in the existing Rate Year 13. They were asking for more. We felt that they had already gotten -- should have gotten a chunk of it -- and that we should cut back at least one of those.

MR. DEIBLER: Okay. So in effect is it accurate to say that shifting to CNG vehicles is sort of a 10-percent premium in terms of what's involved for maintenance?

MR. LEGG: May I?

The companies are requesting or adding a number of trucks to their service which are going to be required to maintain. So it's not just issue of pay per setout and the issues that Kevin is talking about. But they're adding a substantial number of vehicles for abandoned material collection program; they're adding new routes for public litter receptacles collection. And so in addition to the CNG and the age of their fleet, they have shown the need for additional staffing in this area. Our analysis just found that it was slightly more than required.

MR. DEIBLER: Okay. Thank you.

On recyclables processing labor, there's a statement that recyclables tons are not increasing. There was a request for increasing in staff in the draft application that was reduced in the final but not eliminated. And I am just curious why additional positions are needed if there aren't additional tons being processed.

MR. LEGG: We're going to have Alec Dmitriew come up and respond to that.

MR. DMITRIEW: The issue of tonnage is certainly a driver in this consideration and analysis but it wasn't the only issue. The other issue is the increased contamination. So as we roll out recycling programs throughout the city, there is evidence that there is increased contamination in that stream and the companies made a compelling argument, so we did some due diligence. We went to Pier 96, observed the sort line, thought that was a worthwhile investment for the City to invest two additional sorters to do quality control and to help protect the mixed-paper stream for the markets.

MR. DEIBLER: Okay. Thank you.

On health and welfare benefits, there are some significant concerns identified, I think it would be fair, to say in the staff report. My question is really why not set some specific goals in the rate order for making progress on those items.

And this is sort of a general statement. It applies to a few other items where there's an indication that certain things should happen in the next rate review. And I understand there may or may not be some restrictions from the 1932 ordinance about what can happen in the interim. But the general question is that -- and as it applies here -- again, it would be why not make some progress between now and the next review?

MR. LEGG: This is a rate review process and the City is not a party to the collective bargaining process between management and the drivers. We don't -- so we as staff don't have the benefit of learning everything that's learned in those negotiation sessions with labor and management relations. So we don't presume that we can say exactly what the right numbers are on all of these different benefit programs. We do have knowledge about what benefits are provided to City and County employees and places where there are significant differences in those benefits.

And I actually think I would like to introduce an exhibit. This would be Exhibit 76.

Mr. Deibler, I'm going to speak just very briefly. The exhibit is called "City versus Recology Salary Benefits Information."

MR. OWEN: We will mark the document as

Exhibit 76 and receive it into evidence.

(The document referred to was marked and received into evidence as Exhibit 76.)

MR. LEGG: Mr. Deibler, I'm just going to briefly describe that this exhibit shows the salaries -- current salaries -- with anticipated COLAs for Recology's Sunset and Golden Gate staff people who are involved in the collection category. The second page shows salaries and City contributions for City's classification 7355 truck driver. And then I've shown medical benefits at a glance, which show deductibles and copays for City employees. The contribution rates for all City employees, including Teamsters 853, who represent the DPW truck drivers. Then some handouts about changes that have been made in the City's healthcare and pension program primarily directed at new hires but also changing requirements for contributions on the pension and retiree health side.

So I am introducing this in part to show what efforts the City has made to control its pension costs and hope that the City can inform the collective bargaining agreement process that the City is not a part of. But I'd also like to recognize that on the pension side Recology has made some very significant -- at the

negotiating table -- has made some changes on both the health and pension side to achieve cost savings which are bringing them closer to what I think is -- what we think -- is reasonable when looked at in the context of the City.

You can also see on the third page that has the 7355 salary and benefit information that the City is actually contributing a significantly higher level of contribution to the pension system than Recology is for its truck drivers. So it's I believe in the entire kind of compensation program that Recology can and should be doing more to control its costs. But there are so many different moving parts to the cost of employees' different kind of benefits, perhaps that kind of thing, that I don't think it would be reasonable for us to have set targets in any one of those areas. I think that it is appropriate for the City, as we have done, to review these salary benefits and see if we believe that they're just and reasonable and under the processes that we have in the collective bargaining protections that Recology employees have.

We do believe at this time that the rates requested are just and reasonable. And we believe, going forward, it's important that the companies continue as they did with some of their health and pension benefits in the past few years continue to make sure that they keep those costs so they continue to be just and reasonable.

MR. DEIBLER: Okay. Thank you. Thank you for the exhibit.

I'll return to these issues just a little bit under reporting just quickly. But for now I have a question about the composting tip fees. I guess that would be Mr. Macy.

DIRECTOR NURU: Would you like to come forward now?

JACK MACY,

having previously been sworn, appeared and testified as follows:

CROSS-EXAMINATION

BY MR. DEIBLER:

Q. Good morning.

A. Good morning.

Q. One question about the $45-per-ton fee.

Perhaps, I guess, a statement first. My understanding is there's six users at the facility that receive similar service bringing in similar material. 83 percent of that material is San Francisco. 17 percent is split between five other entities bringing material averaging 3.5 percent a piece or so is that

accurate.

A. Well, I don't know about the three-and-a-half breakdown. I know that the large majority is from San Francisco, the 83 percent.

Q. So I guess my question is fundamentally, given that huge preponderance of material coming from San Francisco to the facility, is $45 really a market rate? Is there any reason why the rate to the City should have been lower or potentially lower? Did you consider that?

A. Yes, we did. I think we think the companies made a strong, compelling case that there is increased costs with a higher concentration of food scraps, greater investment, a lot of best management practices. So based on my knowledge of industry and what I've seen in many facilities and the companies' testimony, we do think it's reasonable that the companies be charged in a higher tier. So our argument is, if we are in this higher tier of $45 to $50 and we're the large majority, then there should be a preferential rate. As you read our staff report, we didn't think that there was compelling evidence of a diseconomy of scale. But relative to -- we feel like $45 is a prudent rate, a reasonable rate.

Q. Thank you.

A. You're welcome.

MR. DEIBLER: On CNG vehicles I have one question. There's the question of the state rebate. I believe it's a rebate for purchase of CNG vehicles that's in effect through the Energy Commission at this time. I'm wondering if the staff report could go one step further and really require a good faith effort on the part of Recology to apply for and obtain those rebates; and that could be part of the reporting?

MR. DREW: I think we recommend that they document any CEC funds and their efforts to document the funds, so it's documenting both. I don't think we're in disagreement. So we will be looking at them with them, going forward. That program is changing. The CEC has end dates and starts again. We have to keep an eye on it; and that's what we're asking them to do.

MR. DEIBLER: Just a matter of emphasis, I think. Thank you.

On the Brisbane tax, I just want to really endorse the concept that that is a government fee and hence a pass-through expense, as the staff report states. I think it's hard to construe it in any other way.

On the COLA, I just wondered if there's any way -- and the answer may be no, I understand that -- to

anticipate the effect of the changes that you're recommending and the mechanism? I guess this would be for Mr. Legg.

MR. LEGG: So sorry. Could you repeat your question?

MR. DEIBLER: Regarding the COLA adjustment mechanism, you're recommending some changes. And I'm wondering if it's possible to estimate what kind of impact those might have. Do you generally expect them to reduce the amounts of the adjustment or is it just a fairer way to look at an adjustment?

MR. LEGG: We believe it's just a fair way to represent the adjustment and that it more accurately reflects the actual cost components of the company's budget, essentially. And if I could tell the future about which model was going to produce more or less of an increase, I think I could make a lot of money. But I don't know where the indices are going to go in the next year.

MR. DEIBLER: Okay. Thank you.

On the combined City departments section, there's noting that the use of the impound funds is ultimately approved through the budget process and it is not entirely controlled by any individual department.

But I'm wondering whether the rate order could include a recommendation with respect to that process on the part of departmental -- or departments -- that if such monies are not approved that they in fact be rebated to ratepayers?

MR. LEGG: We have in the past rate processes and may in this process look at available balances that are exceeding what's needed in the impound account. And we have rebated those to ratepayers as part of this process. We'll do that again. It will be always be part of this rate process.

In terms of making an annual evaluation of that or looking at how the Board of Supervisors is appropriating those revenues, we don't think that it's appropriate to do that on an annual basis, because we really cannot foretell the future and what needs are going to be or if there are going to be more rate processes that we have not budgeted for in this process that we would need to draw upon those funds.

And finally I would note that on the DPW side we've shown that the expenditures in our budget that we think are eligible for funding through impound account revenue far exceeds the impound account revenues that are part of these rates. So we don't foresee there being so much excess impound account revenue above eligible expenses that it would make sense to do that on

an annual basis. As I said, we do look at the balances in the impound account when we do these rate processes from time to time.

MR. DEIBLER: Okay. Thank you.

One quick comment on the zero waste facility expansion, the contingent schedules. Just the question was raised -- or a comment by a member of the public -- about also looking essentially at the inventory of City-owned land. I don't know if that makes sense or not. But as part of the overall concept of potential public ownership of the land, if that could be considered.

And, also, I want to strongly endorse the staff report's recommendation in this area in general.

MR. HALEY: I will just go ahead and speak to that. We've looked extensively at City-owned land and other land in the city. And really there is not space available for a facility of that type. The only two locations we were able to identify were at the existing Tunnel/Beatty complex and on Port property. And we studied that pretty extensively and determined that it would be better to expand Tunnel/Beatty. But there's no other significant pieces of City property large enough for this.

MR. DEIBLER: Thank you.

I'm approaching the end here. Thank you for your forbearance.

A few comments and questions, maybe, regarding oversight between reviews. I understand that the opportunity may be limited, but in most jurisdictions there's some level of ongoing administration and oversight. I think that's happening in San Francisco. I'm not sure that I know the extent or the content of it. But I'd like to suggest to the degree that it is feasible, legally and administratively, that in some of these key areas that have identified -- I think health and welfare benefits, liability insurance, workers comp, pension contributions in particular -- that the City collect data that would support understanding the situation as well as possible and use the reporting process to do that and to track progress in specific areas between the reviews, to be developing metrics for looking at the performance, for comparing performance, and I think, Douglas, as you addressed, of setting company expectations for the next or for subsequent reviews in certain areas.

And finally to provide a means for interested public to understand and track what's happening on those issues. I'm not sure what form that should take but just so the next time it surfaces isn't three years from

now for people that are curious.

I think that's all I have. So thank you very much for your time.

DIRECTOR NURU: Thank you, Mr. Deibler.

I think now I will allow for the companies' rebuttal to the staff report.

So, Mr. Baker, if you would like to begin your rebuttal or to begin your rebuttal for staff report, we can go forward.

MR. BAKER: Thank you.

We have three or so witnesses that we would like to recall to testify on certain subjects.

I will start with Paul Yamamoto, please.

PAUL YAMAMOTO,

having previously been sworn, appeared and testified as follows:

DIRECT EXAMINATION

BY MR. BAKER:

Q. You have a copy of what we marked as Exhibit 57, which was your summary of the pricing at composting facilities based upon -- yes, that one.

A. Yes.

Q. That's where I would like to begin, Mr. Yamamoto. You testified about Exhibit 57; and that's the exhibit that divided the Recology composting organics customers into three large categories; is that right?

A. That's correct.

Q. And the first category is customers with a large percentage of food waste. And as Exhibit 57 indicates, that was San Francisco plus six other customers correct?

A. Yes.

Q. And during your testimony we offered staff the opportunity, if they wanted to, to go into some of those companies in a little more detail. And then in the staff report on page 13 there's a short paragraph which staff recommends that San Francisco, being the largest Recology organic facility customer and representing 83 percent of the customers with a large percentage of food waste, received the most competitive rate in that customer category of $45 a ton. And Recology in fact is charged a higher rate than that, correct?

A. Correct.

Q. It's $49.18?

A. San Francisco, right.

Q. So what I'd like to do is mark as Exhibit 77 a document that provides more detail about the customers in that first category. So am I correct,

Mr. Yamamoto, that Exhibit 77 is a breakdown of the San Francisco plus six other customers that was referred to in the prior exhibit?

A. That is the breakdown, yes.

Q. So let's focus our attention on the ones that are less than the San Francisco rate of $49.18 a ton. The first one there is South Bayside Waste Management Authority, SBWMA. We talked about them the last time around. Can you tell us again how that price came about.

A. South Bayside Waste Management Authority was -- that specific number was bid by our predecessor before we acquired the company.

Q. Did Recology bid for that same contract?

A. We certainly did.

Q. Was Recology's bid higher or lower than the competitor that won the contract?

A. It was significantly higher.

Q. And under "annual tons" it says zero. Can you explain again why that's so?

A. We don't receive that material. What we do receive is residential material that is primarily green waste that I believe we provided photos of that feedstock earlier. We don't receive that commercial material. We do receive the residential green waste

that has food scraps in it, so a much smaller percentage of food waste.

Q. During your earlier testimony we introduced some photos that you identified. I think Exhibit 5 and 6 were ones that talked about materials from the SBWMA. What was that material that was depicted in those paragraphs?

A. That's the residential material that contains food scraps and predominantly green waste.

Q. Does SBWMA pay a lower tip fee for that mixed material?

A. They do pay a lower tip fee than San Francisco, than this specific grade of 46.55.

Q. And the 46.55 is a rate that is for commercial food waste which you don't receive from this customer?

A. That's correct.

Q. That was bid by a prior bidder?

A. Yes.

Q. Now Redwood Empire Disposal, $45.81 a ton, 860 tons. Can you describe what that material is.

A. That's also commercial food waste derived from restaurants. It's the cleanest commercial material that we receive. The County of Sonoma and Redwood Empire Disposal have had a program in place for

sometime. There's an expectation between the primary compost facility -- just for clarity, Recology is not the primary composting facility for Redwood Empire Disposal. So the primary facility and the collector have an expectation of cleanliness.

Q. An expectation of what?

A. Cleanliness, minimal contamination in terms of plastics, bottles, containers, noncompostables.

Q. Are the customers of Redwood Empire Disposal and Sonoma County provided instructions on what type of material that will be accepted for this program?

A. They are provided materials and they do received training, yes.

Q. What do those materials say?

A. The focus is on, if you will, a positive sort. So a focus on inclusion of those desirable materials rather than an acceptance of organics in general and a listing of excluded materials. For various reasons that community has elected to go with a higher quality, if you will, rather than volume in their organics program.

Q. So can you give us an example of if a worker at a restaurant is trying to decide which bag to put material in, what sort of direction is that worker given as to what material would be accepted?

A. Placing vegetables and whatever food scraps are generated within the kitchen directly into a container, typically not bagging them. The direction in general is to make sure that plastics and other contaminants are not incorporated into the feedstock from the outside.

Q. So when materials from Sonoma County and Redwood Empire Disposal arrive at Recology's facilities is it different than the material you get from San Francisco?

A. It is. It is different in terms of the percentage of contamination.

Q. Okay. Greater contamination from San Francisco?

A. In general, yes.

Q. In terms of Costco, what's the material you get from Costco?

A. It's similar to Safeway, although they have a different process by which they collect that material. Costco employs a compactor at each of their warehouses or their stores, so food waste is placed directly into that compactor. It's not containerized. It's not shrink wrapped. It's not palletized. It goes straight into that compactor. Therefore, it has less contaminants than specifically Safeway. Safeway is a

transfer-type operation where they intentionally place food waste into boxes, shrink-wrap and palletize that material so that it does not leak. They transport that material in the same trailers that they transport fresh food, so they are very cautious about that. They also want to be certain that the pallets are stable and don't tip or fall. So there's quite of bit of extra non-compostable material that's added to the mix in Safeway that ends up at our compost facility versus Costco.

Q. And Safeway is another of your customers that pay actually a higher tip fee than San Francisco, correct?

A. That's correct.

Q. So you're saying at Costco, as contrasted with Safeway, Costco takes food waste and puts it into a compactor?

A. That's correct.

Q. So it doesn't need the packaging material that Safeway utilizes?

A. Right. The compactor itself is the container, whereas each individual Safeway store attempts to create its own container on a single pallet.

Q. So is the Costco material therefore different in quality when received at your facilities

than San Francisco material?

A. Yes, it is. It tends to be cleaner material.

Q. And you talked about this before, but San Francisco material typically arrives in plastic bags because that is the way it's collected from restaurants?

A. That's correct.

Q. So does San Francisco, at $49.18 a ton, receive the most competitive rate for the type of material that is sent from San Francisco to the Recology organics facilities?

A. I would say that it does. For the material type, the level of effort that the company is employed to convert that material to organically certified compost, yes. The bulk of the costs and expense in terms of capital, operating costs, the best-management practices that we detailed in past testimony, all of that is directly related to the San Francisco material.

I know that there's been some discussion about economies of scale or diseconomies of scale. I would say that San Francisco has benefited from the volume of material that we receive that is not commercial food waste. So in other words, the green waste, other customers that have material that is not as

contaminated, for lack of a better term, has actually created an economy of scale that San Francisco has benefited from. And those less contaminated feedstocks are actually bearing some of the costs and the infrastructure and best practices that we employ.

Q. So I'll get to the economies-of-scale issue in a minute. But in terms of Costco and Redwood Empire Material versus Safeway and San Francisco material, does the Costco and Redwood Empire material require less processing costs, less labor in order to move through the system?

A. It does. And, again, it's a much smaller volume of material. There are significant periods of time when we don't receive any Costco material. And it does take less labor and cost to process.

Q. Now, you testified earlier about economy of scale. And as the staff report correctly notes, the companies did not provide a detailed explanation of the diseconomy-of-scale premise. So I wanted to spend a little bit of time explaining it in a little more detail as to what you had in mind when you talked about that.

When you talk about economies of scale or diseconomies or inverse economies of scale in this business, are you saying that your costs go up for every additional ton, every additional marginal ton that you

receive?
A. When we are talking about an economy of scale, generally the reverse is true, that the fixed costs are distributed over a greater number of tons. So every incremental or additional ton that you receive, theoretically, has a lower cost associated with it. There are variations on that and there are exceptions to that as well.
Q. So each additional ton would have a lower cost?
A. In general.
Q. And that's the classic economy-of-sale concept, isn't it?
A. Correct.
Q. How does the inverse economy of scale come into play in this particular type of business? At what threshold does it start to kick in?
A. In our operation at compost sites as well as other post-collection facilities in the waste industry, there is a step-function type of occurrence of capital expenditures and operational expenses. So up to a certain point it's possible to manage, for example, commercial food waste. If we receive 200 tons a year or 1,000 tons a year or 10,000 tons a year of commercial food waste, the vast majority of our feedstock being

green waste, we wouldn't incur all the expense that we currently incur at our operations. We wouldn't have to invest the millions of dollars that we have at our facilities. But once you get to a certain point, you cannot avoid the influx of capital required to address stormwater controls, groundwater protection, odor monitoring and management, just to make sure that you create a quality of feedstock that can be sold and you complete the sustainable cycle.
Q. What is there about the composting operation that results in moderate amounts of food waste being manageable without the additional capital requirements?
A. It's the amount of green waste. Green waste is a far more manageable material, produces less environmental concerns in terms of the strength of leachate, the volume of leachate, the odors produced, the vectors that it attracts. It's just a very different material, almost -- I wouldn't say innocuous but almost, in comparison to commercial food waste.
Q. So going back to my question, why is that food waste up to a certain threshold is manageable without the additional capital expenditures?
A. Being able to blend that commercial food waste into green waste allows us to manage smaller

volumes of material. And yeah, in general.
Q. So then once the amount of food waste exceeds the ideal proportions for mixing with the green waste you have available, other costs come into play; is that right?
A. That's correct. So the concrete pads and permeable surfaces, drainage systems to collect and convey leachate, leachate treatment systems and ponds, recirculation systems, control systems to positively aerate the feedstock, bio-filtration, making sure that the operators are trained in sizing criteria and blending the right radios of food waste to green waste, applying lime treatment to maintain the property acidity or pH in the material. It goes on and on.
Q. So you testified earlier about having incurred some of those additional capital expenses already in one of your facilities -- Jepson, I think it was, wasn't it?
A. Correct.
Q. And that there be some capital expenditures that will now be required at Grover similar to what you did at Jepson; is that right?
A. That's correct, on the order of 2.5 this year and an additional nearly 2 million next year.
Q. If it were not for the volume of food

waste that you received from San Francisco would Recology be required to make the significant levels of capital investment that you described?
A. There would definitely be an investment, but not to the magnitude that we currently are engaged in.
Q. Why is that?
A. For all the reasons that I explained before: Odor control requirements would be less; less intensive aeration systems; smaller bio-filtration; smaller need to manage liquids generated from a predominance of green waste versus food waste.
Q. So in terms of all the customers that Recology serves is San Francisco getting the best price among all of Recology's customers for the food waste material that San Francisco sends to Recology?
A. In my opinion, yes, based on the volume of material coming in and proportioning the costs with the materials.
Q. What would be your reaction to only getting $45 as opposed to 49.18 for San Francisco's materials?
A. Qualitatively speaking, it's awfully close to a green waste rate.
MR. BAKER: All right. I have nothing

further. Thank you.
So, Mr. Owen, we marked Exhibit 77.
MR. YAMAMOTO: Counsel, I do have one correction. The volume for San Francisco is significantly higher than the 37,930. I believe it's closer to 148,000 tons per year.
MR. BAKER: Oh, did I make a mistake?
Q. All right. So the exact number is what now?
A. The exact number would be 148,630.
MR. BAKER: Thank you.
We can provide a correct exhibit.
MR. OWEN: 77.
(The document referred was marked and received into evidence as Exhibit No. 77.)
MR. BAKER: Thank you. Nothing further of this witness.
DIRECTOR NURU: Thank you.
MR. BAKER: I don't know whether -- he cannot be here on Wednesday. I don't know what the plan was in terms of cross-examination, but if anybody has any other questions of him, this would be a good time to ask them.
DIRECTOR NURU: Staff?
MR. LEGG: I would like to take a brief break

before we do that. And maybe this is a good time to take a 15-minute break.
But before we do that, I'd like to know what else is on Recology's agenda and if there's anybody else who isn't going to be able to come back on Wednesday, who you're going to put on today.
MR. BAKER: Everybody else can be here Wednesday. And the current plan is Mr. Braslaw and Mr. Glaub.
MR. LEGG: Thank you.
DIRECTOR NURU: Okay. So we'll take a 15-minute break and resume back here at 11:10, if that works for everyone.
(A break was taken from 10:54 a.m. to 11:12 a.m.)
DIRECTOR NURU: If everyone can take their seat, we can continue with the rebuttal to the staff report.
MR. BAKER: I actually have a couple of other questions of Mr. Yamamoto that came up over the break, if I could do that before the other questions are asked of him.
DIRECTOR NURU: Okay, Mr. Baker. You may proceed.

MR. BAKER: There was one document I neglected to mark as an exhibit, which I will do now.
MR. OWEN: We will mark this document as Exhibit 78 and receive it into evidence. It's a single sheet, "Disposal to Hay Road Landfill, Rate Years ending June 30."
(The document referred was marked and received into evidence as Exhibit No. 78.)
BY MR. BAKER:
Q. Mr. Yamamoto and Mr. Nuru, this is a page from Recology rate application from 2006. And we are offering this only to show one point, which is set forth in the footnote which says Intercompany disposal rate for organics is $37 a ton in Rate Year 7; $39 a ton in Rate Year 8, $41 a ton in Rate Year 9, $43 a ton in Rate Year 10, and $45 in Rate Year 11.
So, Mr. Yamamoto, is it your understanding in terms of the rate application in 2006 that Recology set forth that the rate for the composting tip fee in Rate Year 11 would be $45 a ton?
A. Yes.
Q. Okay. Focusing on the $49.18 rate that is in the proposal in the application, if you take into account processing fees -- pardon me -- if you take into

account the processing costs for San Francisco commercial food waste material and also the capital improvements that are required, as you testified earlier, solely because of the San Francisco waste stream would Recology even make money at the $49.18-per-ton tip rate?
A. That rate does not cover our capital and our costs.
Q. And $45 would not either, obviously.
A. Clearly, 45 would not.
Q. Why doesn't Recology organics charge $60 or $70 a ton? Why is it $49.18, given the nature of material that you have to handle?
A. We have a large volume of material aside from San Francisco's feedstock; and the costs associated with our site are distributed amongst those tons. So there are other customers that are sharing the expenses related to all of our capital, our best-management practices, not fully but more so than if none of those facilities existed for the benefit of commercial food waste.
MR. BAKER: Thank you.
I now have nothing further, Mr. Nuru.
DIRECTOR NURU: So I believe we would like to cross-examine from the City.

CROSS-EXAMINATION BY THE CITY
BY MR. BRUEN:
Q. Mr. Yamamoto, good morning. My name is Tom Bruen. And Jack Macy and I have a few questions for you. So I am going to begin with some general questions just so I understand your testimony. You described a proposed rate of $49 and some cents. Is that a rate charged for both of IRA compost operations, the one at Grover and the one at Jepson Prairie?
A. Yes.
Q. Do you know who set those rates or that rate for both facilities?
A. Our controller developed through the rate model that we have. Our controller developed those numbers.
Q. Has that rate model been shared with City staff?
A. I don't believe so.
Q. Do you know how the rate model was developed? Do you know any of the details of that rate model?
A. I know the fundamental concepts. All the expenses and capital related to the operations are essentially taken into account to come up with the rate. As I mentioned before, those costs of capital, the

amortization of capital, the distribution of expenses are distributed across all tons.
Q. Do you know if that rate model would result in different rate for the different waste streams that go into those two facilities?
A. Can you clarify?
Q. Yes. In other words, did that rate model use all of the costs of operating those facilities and calculate a tip fee per ton regardless of which waste stream was coming in? Or did it generate a different rate for Safeway waste and for Costco waste and for pure green waste?
A. It did on a broader basis categorize food waste versus green waste or green waste with minimal amounts of food waste.
Q. What was the rate that was developed for food waste?
A. Food waste is in the 45- to 50-plus range.
Q. That's what the rate model indicated?
A. Yes.
Q. All right. Do you know why the rate model had a range of $45 to $50?
A. Yes. We take into consideration the type of material that we receive, the volume of material, and the market conditions as well.

Q. Did the rate go up with the volume of food waste?
A. With what specific -- are you talking about a specific operation, a specific customer?
Q. Well, you indicated that the rate model came up with a range of food waste of $45 to $50 a ton and one of factors was volume. So my question is in what way did volume affect that range? Did the price per ton go up with volume or go down with volume?
A. As mentioned before, volume allows us to distribute the cost amongst the various tons that come into the site, so it would have an effect of being able to reduce the rate.
Q. So greater volume means a reduced rate?
A. Again, there can be exceptions if -- well, it can.
Q. So your understanding of the Recology rate model was it indicated that, as to food waste tonnage with higher volumes in that $45 to $50 a ton range, the rate per ton would go down?
A. With higher volumes? Actually, if I can explain, our costs can actually go up if we receive higher volumes of material. So what I've tried to explain earlier is that a small volume of food waste can almost be immaterial in terms of expenses, capital

expenditures. But when we receive over a hundred thousand tons of commercial food waste that causes -- that invokes all sorts of capital expenditures and best practices that wouldn't be required otherwise. So it's not quite as simple as a linear volume-to-price ratio analysis.
Q. What I'm trying to figure out, I think you testified previously that in looking at the $45-to-$50-a-ton range for food waste, I thought you said the volume had the effect within that range of driving down the cost per ton; is that true?
A. As an overarching concept, yes, with the underlying concept of additional capital and expenses related to commercial food waste.
Q. Now, have you provided the City with a balance sheet or P&L statement for the Grover and Jepson Prairie operations that would show how you're allocating fixed costs versus variable costs to waste from San Francisco and your other composting customers?
A. I have not.
Q. When waste from San Francisco is received at your two operations at Jepson Prairie and Grover, is it commingled with the green waste and food waste coming from other customers? Or is the San Francisco waste stream of green waste and food waste processed

separately?
A. Commercial food waste is processed separately; and then it's commingled after it's been screened and sorted and the contaminants picked out.
Q. So you process commercial food waste separate from green waste?
A. It's not quite that simple. When it arrives at the site it's segregated; its run across a sort line and trommeled. The material that results after the contaminates have been removed are blended with green waste, so ultimately in the end it is blended with green waste and other feedstocks.
Q. So the process that you just described is a process that you apply to food waste that comes in from San Francisco or goes over the trommel and is sorted; is that right?
A. That is correct.
Q. And is this the same process applied to the commercial food waste you receive from Costco?
A. Yes.
Q. And Safeway?
A. Correct.
Q. And from any other customer?
A. From any other customer that has a high concentration of commercial food waste.

Q. So all of your commercial food waste that you receive from Costco, Safeway, San Francisco, and any other customer that has a high concentration of food waste is all going to be commingled together and processed the same way, correct?
A. Ultimately it is eventually combined, commingled, and becomes one primary feed stock that goes into the system.
Q. Well, when you say "ultimately," it's commingled at the beginning, isn't it? Isn't it run through the same trommel and sorting process whether it's from Costco or Safeway or San Francisco?
A. It's possible that it is. They don't always arrive at the same time. So, logistically, it's not necessarily commingled.
Q. But they're subject to the same basic process at your plants, right?
A. Correct.
Q. Whenever they come in?
A. Uh-huh.
Q. Now, you indicated that there were increased costs associated with taking food wastes regarding stormwater controls. If San Francisco food waste were going away tomorrow and you didn't receive it anymore, how would it change your stormwater controls?

A. Well, there's a continuum of regulations that have evolved over time. Back when we installed these stormwater basins and drainage channels to collect the leachate, there was no obligation. There's no specific obligation to do so. We did that in order to make sure that we had an environmentally sound process.
Q. Would you have done that if you didn't receive feed waste from San Francisco, but you did receive commercial food waste from Costco, Safeway, and these other customers?
A. It's not quite black and white. It depends on the volume of material that we receive, commercial food waste. As I mentioned before, there would be some expenditures in terms of stormwater management, stormwater treatment, but not to the extent or degree that we currently engage in.
Q. What I'm trying to get at is can you identify something specifically that you have done that you would not have done had you not been receiving commercial food waste from San Francisco so that we can figure out what it is and how much it would cost?
A. Certainly. The local air board for Jepson Prairie organics facility has a limitation on volatile organic compounds. And one of the projects that we embarked upon to accommodate those limitations and those

restrictions was the installation of the engineered compost system, the bio-filtration, and all the drainage collection associated with that operation. The primary generator of volatile organic compounds is commercial food waste. And this project was embarked upon specifically to allow us to continue expanding San Francisco program.
Q. Do those environmental controls you described for commercial food wastes also apply to the food waste you receive from Costco and Safeway?
A. Again, not black and white. To a lesser extent, because it's much smaller volumes, we wouldn't be subjected to the same limitations.
Q. But today you run all that commercial food waste through the same process, correct?
A. That is correct.
BY MR. MACY:
Q. Good morning, Mr. Yamamoto. Thank you for Exhibit 72.
I just wanted to check with you. Right now what would you say is the mix of green waste and food waste at the Grover facility?
A. Let's see. We strive for a one-to-one ratio and sometimes that's not achievable, but somewhere in that range.

Q. So you are already close to one-to-one at Grover?
A. I'd have to check and get back with you for exact numbers.
Q. I guess it's changed a bit since I have been there. Seemed like two-or-three-to-one. And Jepson Prairie organics has had a lot of investment made. You mentioned four million before. ECS system, reinforced pads, forced aeration, bio-filter, cover, pond all that. Right?
A. Correct.
Q. Correct. And that the -- so the tip fee at Jepson is also at 49.18?
A. Correct.
Q. For San Francisco. Does that -- do you think that covers the cost? Or it's close?
A. As I mentioned before, if we look at the costs associated with San Francisco's material, it does not cover the cost. I can't emphasize enough, there's a tremendous amount of effort that goes into managing commercial food waste that is completely unrequired -- not required for green waste or less intensive materials.
Q. Right. So Jepson has had all this investment. Grover has not had as much investment.

There's open windrows. So do you see the quantities of material changing -- let me ask you -- what is the -- how much material from San Francisco goes to Grover at this point, roughly? Is it two-thirds of what San Francisco companies are bringing?
A. It's probably over two-thirds of the material. And though the Grover operation does not currently have the same level of capital investment, we are catching up very quickly this year and next year.
Q. And you see the quantity of material from San Francisco increasing significantly? Because the overall tonnage is only going up a couple percent. Do you see that proportion going to Grover increasing or staying the same?
A. I don't have the trends, but whatever increases is concerned within the City of San Francisco and especially when mandatory recycling went into place, all that increased tonnage did end up going to both initially Jepson Prairie and then to our Grover operation.
Q. Okay. The investment that you have projected for Grover, are you saying that you are going to be employing the same technology that you have at Jepson Prairie with an ECS-type system? Or is it just putting in -- perhaps, can you say more about what is

it -- how similar is it to what you're doing at Jepson Prairie that you're proposing to do at Grover?
A. The receiving area is going to be improved. We are going to install a concrete-padded receiving area, so improved services to minimize or to manage leachate that's produced by the material. We will have conveyance ditches to carry leachate and any contaminated stormwater to a treatment pond. Grover has for years employed a very different process to manage their material. It was not as capital-intensive, but it was far more labor-intensive in terms of equipment hours and manpower required to turn the material.
As you know, the windrows employ the Lubke method, which is a much smaller wind row which requires much more intensive turning. So capital and the man-hours associated with that effectively offset the capital investment that we made at Jepson Prairie Organics. So two very different systems, but costs are distributed in a different way.
Q. So are you going to continue that Lubke approach with small windrows but you're just putting in more of a reinforced pad to collect the leachate into ponds?
A. We're also putting in two different sort lines. Because of the nature of the commercial food

wastes, we have a separate dedicated sort line to remove contaminants from that material. We cannot commingle it with green waste up front. The green waste would occlude and prevent sorters from accessing the contamination, so it's processed and sorted initially up front on a separate sort line. And the green waste is managed across a different sort line. That's a new added series of equipment train that we have had to add to accommodate contamination.
Q. Okay. You were talking about some of your different customers and how Redwood City (sic) has a system where they have a positive sort of what goes into the collection a focus on quality. The implication seems like San Francisco did not and that our material is pretty much collected in plastic bags. But have you seen what is accepted in San Francisco's material and plastic is not unless it is a certified and properly labeled compostable?
A. I think similar materials are employed in both communities. But the resulting material that we receive at the site is very different. I will commend San Francisco in terms of creating a program that makes it more readily accessible for customers to participate in. I think it is difficult to say what the cause of the difference in contamination is, but there's a very

distinct and real difference.
Q. Then I guess in the Safeway you were talking about how Safeway shrink-wraps their material on pallets in boxes on pallets and that involves several layers of plastic on every --
A. Layers within layers, boxes within boxes.
Q. Plastic within the boxes and all that. Certainly that photo that you had showed before indicated would you say that there's -- wouldn't you say then there's certainly more plastic coming in from Safeway's material than San Francisco?
A. It's difficult to say percentage-wise which feedstock has more plastic. Plastic, as you know, is almost two-dimensional. It's very visual, but it doesn't have a lot of weight. It's difficult to say.
Q. So just to go back, the investment you make is -- it sounds like that's mostly a capital investment of pads, dedicated sorting line, pond. As you were saying, there's a whole different sorting line for San Francisco-type material. But that sorting line for high-concentration food waste would certainly apply to every customer in this large percent of food waste group, right? Or not necessarily?
A. In general, yes, I would say that the Redwood Empire material is fairly clean and does not

require the same intensive sorting that other customers do.
MR. MACY: Thank you.
BY MR. BRUEN:
Q. I just have a few follow-up questions. I believe you testified a few moments ago that at $49.18 a ton the Grover and Jepson Prairie sites would still be losing money on the food waste from San Francisco?
A. Correct.
Q. I believe you also testified that the price was determined using a rate model which predicted a range from $45 to $50 a ton. So are you telling me that the rate model you used was a rate model that resulted in a rate per ton on which the company lost money?
A. No. It also incorporates the revenue that we receive from other customers with lesser contamination. I also testified earlier that the costs of these facilities, the capital, the manpower is also distributed amongst those tons as well. So in some ways San Francisco is benefiting from those other customers paying for capital and labor that's directly related to managing commercial food waste.
Q. Is this rate model something that's in writing, like a spreadsheet that you've seen?

A. Yes.
Q. Does it show what the subsidy is from green waste that benefits the food waste pricing?
A. It doesn't call that out. It does not specify that.
Q. How do you know the subsidy exists then?
A. Because I've spoken with the controller.
Q. So the rate model itself, if we were to see the rate model produced to us in writing, it would indicate the amount of any subsidy for the food waste program?
A. It wouldn't specify a subsidy, but the way that the rate model is produced and the way that we distributed costs just naturally associates costs with all tons.
Q. Now, for the Costco waste at $45 a ton, are you losing money on that?
A. Not if you aggregate all tons. If we -- we have an obligation to our company to compete in the open market as well, so there's an open-market element to the equation also.
Q. So, would you --
A. I'm sorry. Can you repeat the question.
Q. Yeah. At $45 a ton to Costco for its food waste, are you making a profit on that contract?

A. On that specific material, no. As an aggregate, overall, because of all the tons that come into the site because of the way that our facilities have evolved to the current operation, yes.
Q. Why would you take commercial food waste from Costco if you're losing money on it?
A. Again, because of the distribution of costs and expense -- capital and operating expense -- over all tons, we're able to offer a lower rate to commercial customers than we would if we were handling just pure commercial food waste.
Q. Are you saying that you're taking other waste from Costco on which you're making a profit, which subsidizes the food waste price for Costco?
A. No. What I'm saying and what I've said before is that we are accepting materials that are not commercial food-waste-type feedstock that we're able to defray some of the expenses over.
Q. So you go out in the open market and you give a price to Costco for food waste of $45 a ton because that's the competitive price and the decision is made by the company to enter into that contract and take that food waste rather than turn the contract down, right?
A. That's correct. That's how the open

market works, yes.
Q. But you've also testified that you're losing money on that contract.
A. When you analyze the material on a customer-by-customer basis, if you associate the costs related to commercial food waste, if you isolate San Francisco and look at San Francisco on a stand-alone basis, we are not covering the costs. And those costs specifically related to the commercial food waste to manage San Francisco tonnage exceed the revenue that it generates.
Q. My question was about Costco. The $45-a-ton price to Costco is either covering your cost of taking that waste or it isn't. And I think your testimony has been that the $45-a-ton rate for Costco doesn't cover the cost of taking the food waste from Costco; is that your testimony?
A. On an isolated basis, correct.
Q. My question then is why would the company enter into a contract with Costco to take their food waste if, in fact, they are losing money at $45 a ton?
A. The answer to the question is that the overall operations are profitable. But, again, on an isolated basis, if we were to isolate each individual customer and associate their cost with their tons, we

wouldn't be able to attract any commercial tons.
Q. Well, if you went out into the open market and you're bidding --
A. I suspect that all of our competitors do the same.
Q. Okay. So you're submitting a bid to Costco to take their commercial food waste for $45 a ton. If San Francisco's food waste went out to bid, would you also offer them $45 a ton?
A. I would have to say, as I mentioned in earlier testimony, that we have to look at some customers and adjust their rates upward. But to adjust San Francisco's rate downward because of the significant volume that we have, that would be a detriment to the economic viability of the site.
Q. So you would offer a better rate to Costco than to San Francisco for their food waste?
A. No. What I said was we'd have to reevaluate those smaller customers that happen to have commercial food waste that have benefited from the operations that are currently in place.
Q. Okay. You indicated that San Francisco food waste comes in bags. Are those bags compostable?
A. Many of the bags are. Some are not.
Q. Do you know what percentage?

A. No, I don't.
MR. BRUEN: That's all I have. Thank you.
DIRECTOR NURU: Okay. I think this concludes this line of questioning.
Mr. Baker?
MR. BAKER: May I ask Mr. Yamamoto a couple of follow-up questions, please?
DIRECTOR NURU: Yes, you may.
BY MR. BAKER:
Q. To follow up, Mr. Yamamoto, on a couple of the questions Mr. Bruen asked you. And let's focus on Costco as an example, as he was asking you -- and the pricing. Once Recology has made the capital investment required in order to handle the volume of San Francisco commercial food waste, when an additional customer comes along, like Costco, at smaller volumes, does Recology make money at $45 a ton?
A. Yeah, again, taking into consideration the overall site, yeah, we make money on that incremental revenue.
Q. If you didn't have the volume of San Francisco waste and Costco came down the street and wanted you to take the their commercial food waste, could you make money at $45 a ton if you had to make the capital investment required to gear up for high volumes

of commercial food waste that you have already done but you wouldn't have done under this hypothetical?
A. No. And that's one of the reasons that we bid a much higher rate for the San Mateo commercial food waste. What you described is exactly what we would have encountered, additional expense to manage that material.
Q. Additional expense, what?
A. Additional expense to manage that material.
Q. Now, you testified earlier that it costs you more to process -- let's put the capital expenditures aside for a minute. But you testified earlier, I think, that it cost you more to process San Francisco commercial food waste than it does food waste from Costco or from Sonoma County through Redwood Empire; is that true?
A. That's correct.
Q. But you also told Mr. Bruen that the commercial food waste that comes in from different customers is commingled and run through the same processing equipment; is that right?
A. Quite often it is, yes.
Q. So how is it, if that's so, that the waste from all customers is generally commingled and run through the same equipment? How is it that San

Francisco commercial food waste costs more to process than food waste from Costco or from Redwood Empire?

A. It's the level of contamination. I know that it was just recently mentioned what is the percentage of compostable bags versus non-compostable bags. Well, we have to sort out compostable bags as well and incorporate those into nonorganic certified windrows, so we sort that as well.

Q. So can you give us -- be more specific? What does that mean? More people standing some place picking bags out or using different equipment?

A. Yeah. It's very labor-intensive. Yes, some more people on the sort lines, anywhere from four up to eight, beginning on the level of contamination. And San Francisco has the highest number of sorters that we apply to clean the material.

MR. BAKER: Thank you I. don't have anything further.

DIRECTOR NURU: Okay. Any cross-examination?

MR. BRUEN: Just one question.

Q. Did I understand you to testify just now, Mr. Yamamoto, that charging San Francisco a higher rate per ton enabled you to charge Costco the rate of $45 a ton?

A. I didn't recall specifying a price. The

concept is the capital investment that exists at the facility to manage the San Francisco contract.

Q. So the rates that you're proposing that would be charged to San Francisco would enable you to give more favorable pricing to follow-on commercial food waste customers?

A. That's true. And as I mentioned before, as I testified earlier, we'll have to take a look at some of these very small customers that don't generate significant revenue.

MR. BRUEN: Okay. Thank you.

DIRECTOR NURU: Any questions from the Ratepayer Advocate for cross-examination?

CROSS-EXAMINATION BY THE RATEPAYER ADVOCATE

MR. DEIBLER: I'm not sure if this question is for Mr. Yamamoto, but it has to do with contamination, the question of contamination that's been raised. It might be for Mr. Braslaw. I'm not sure. Would you like me to ask that now?

DIRECTOR NURU: Why don't you ask the question and we'll decide who will answer.

MR. DEIBLER: My question is you've raised the concern about contamination for San Francisco's material. How does that contamination get into the material in the first place?

MR. YAMAMOTO: Through the collection process and the process of placing the material in the carts or the bins as the material is consolidated at the restaurant or the customer's location.

MR. DEIBLER: Okay. And does the company have any role in play in controlling the contamination at the point of collection?

MR. YAMAMOTO: I'm sure that there are others in the room who might be able to touch on the training programs and educational programs better than I could.

MR. DEIBLER: I'd like to pursue that a little bit. I could do it at a different time. Or it just seems if that's the key issue for why the material costs more to process then it's worth asking a few questions about how contamination occurs and could be controlled.

DIRECTOR NURU: Are there any other questions you have for Mr. Yamamoto?

MR. DEIBLER: I don't believe so.

DIRECTOR NURU: Okay, then the company should -- I guess Jon?

MR. BAKER: Mr. Braslaw is going to be our next witness, so he can respond to that.

JON BRASLAW,

having previously been sworn, appeared and testified as follows:

MR. BRASLAW: To respond to your question about the company and the responsibility we have a staff in place that does outreach. They work with our commercial customers. They work with our apartment and residential customers to try to show them how to use the system in the best way to try to reduce contamination.

One of the things we discussed earlier in the hearings was the fact that the companies as part of our zero waste program have a new outreach plan that we are implementing now, where we're working with customers, we're working with our drivers, we have hired somebody to examine materials as they come in to our facilities to identify contamination so that we can work back upstream and work specifically with customers to train them to try to help them configure their operations to reduce contamination.

I think, at the beginning of the program and as the program kind of gains some traction, that it was most important that we can get participants, that we can get people to use the system. And now we're starting to really move into the stage where we need now to tune those programs to make sure that we can do it in such a way that facilitates the processing and ultimately controls the cost.

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CROSS-EXAMINATION BY THE RATEPAYER ADVOCATE
BY MR. DEIBLER:
Q. So would it be fair to say that you're optimistic that over time contamination can be decreased at the point of collection?
A. We're hopeful. It has been difficult. And one of the challenges we face, especially with the green bin, is that there's so much space constraint that it's difficult for the restaurants to go through and set up their systems in a way to try to minimize that. I think the fact that we're out there and we're working with those customers, we're trying to develop new techniques and processes to help them.
Q. Is that something you regularly reported on in the past or anticipate reporting on on a quarterly basis moving ahead -- progress on contamination?
A. We have not specifically reported on that in the past. That's something that's -- again, I think with respect to the materials at the processing facilities, that's something that I assume they keep track of. I have not seen the information about it, so I can't really speak to it at this point.
Q. But wouldn't it be important to know that in order to understand the efficacy of the efforts you're making which have some costs to control

contamination at the point of collection?
A. Yeah, we've received feedback, but it's basically been anecdotal. But at this point unfortunately the level of contamination is such that we've been told there's work to do. So I guess as we move to the point where the contamination gets smaller and smaller, it's probably more important to do a formal measurement. At this point we know we still have some ground to cover.
Q. Do you have any objection to providing reporting information both at the facility point and also at the point of collection in terms of contamination over time?
A. That's something I'd have to work with the facilities to make sure that they gather data, that data is available. We certainly would be willing to share that data with the City. We do all kinds of reporting now on a quarterly basis, on a monthly basis, and will continue to do that as requested.
MR. DEIBLER: Okay. Thank you, Mr. Braslaw.
DIRECTOR NURU: Okay. So I believe that concludes cross-examination.
Mr. Baker, you may continue the questioning of Mr. Braslaw.
FURTHER DIRECT EXAMINATION OF MR. BRASLAW

MR. BAKER: Let's start with a new exhibit, which will be Exhibit 79 I believe?
MR. OWEN: We'll mark the document as Exhibit 79 and receive it into evidence. It's a single sheet with the tag line "Residential Development Pipeline December 2012."
(The document referred to was marked and received into evidence as Exhibit No. 79.)
BY MR. BAKER:
Q. Mr. Braslaw, am I right that this particular document was prepared by Recology to address the portion of the staff report that talks about the number of new apartment customers that are estimated to be coming online over the next year or so?
A. That's correct.
Q. And the staff report has provided a document which has been marked today as Exhibit 67 which reflects a projection of 2,847 new units coming online during the next rate year. And the staff report proposed adjustment to projected revenue based on that, correct?
A. That is correct.
Q. And did you and Recology take a look at the City's analysis on that point?

A. We did.
Q. And Exhibit 79 reflects your work?
A. That's correct.
Q. So can you walk us through Exhibit 79 and tell us what you did?
A. Yes. First, we looked at the number of units that were included in the schedule that's part of Exhibit 67. We identified four of those customers whose buildings are already online. So those customers already would be part of the revenue that we presented in our rate application. The first two customers on the list in Exhibit 79 are apartment customers. You can see on the far right that they came online on August 1st and November 25th of 2012. Again, some portion of their revenue is already in the company projections of revenue in the application.
Likewise, the next two customers are in the same situation. They are, in fact, commercial customers. But they also did come online earlier and their revenues are included in the revenue projections.
The next two customers, 1401 Market and 1169 Market, those are actually commercial customers. So what the company did is identify those customers, that those units that were either online or were commercial customers, and then adjusted 2,847 to come up with a

number of apartment units that are going online based on the schedule that was included in the Exhibit 67.

Q. That number you came up was how much?

A. 900. And so you can see the math. We started with the 2,847, adjusted it for existing apartment customers, then adjusted it for customers that we had identified as commercial. And that left 900 additional units.

Q. And the existing apartment customers and then the commercial are denoted by the letters "A" and "C" that appear at the top toward the right?

A. That's correct.

Q. So now we have 900 additional apartments units. What did you do after that?

A. After that we went through and calculated the cost of minimum service for those additional units to determine what additional revenue would be generated. So the 900 units -- using 16-gallon minimum service for each of those units, we calculated that we would have an additional 14,400 gallons per month. Then dividing that by 32 gallons, which is the size of the base unit that we use, to determine the costs, we came up with 450 32-gallon bins. So that 450 bins would be representative of the 900 units. Each unit has 16 gallons.

Q. Then you multiply that times the price of $27.91?

A. That's correct. That's the current rate today. We calculated the additional revenue that would be generated by these new units under the existing structure and then ultimately adjusted it to the base for which the rate increase would be applied. So at 27.91, we came up with an additional monthly revenue of 12,560 and then annualize that number. The resulting annual revenue is $150,714.

Q. So in doing this analysis, why did you use the current rates as opposed to the projected new rates?

A. Because the projected new rates, it's unclear what each customer would be subject to in terms of the structure and because the adjustment we made we made into the base revenue, all of the customers -- all of the new customers -- would in fact be subject to the 21.51 percent or whatever ultimately the rate increase percentage comes to. So that way we apply the 21.51 by increasing the base and then assume that would be increased by the rate increase percentage.

Q. So increasing the base, as you said, by $150,714, are you making reference to one of the schedules in the rate application?

A. Correct. That would be Schedule F-1.

Q. And that's the way analysis was done in F-1? It began with the base revenue based upon current rates?

A. That's correct. Schedule F-1 shows the apartment revenue for the last 12 months. So the revenue that we used as that base was the revenue from the last 12 months. In fact, there's one more adjustment on the schedule below the 150,000. And that is to account for the fact that the apartments that came online during the year weren't in the revenue base for the full year. So in order to make sure that we accounted for that revenue that wasn't picked up, we calculated the number of months -- essentially the number of months -- that were missing and added that back in to come up to $190,633. That again accounted for the fact that the apartments came on during the year that we used as the base.

Q. So to summarize, is it fair to say you take staff's point on this, that is you are acknowledging that they have raised a good point, but you think the adjustment based on that point should be $190,633 rather than the higher number they had calculated based upon a higher number of units?

A. That's correct. The staff in Exhibit 67 identified certain buildings and projects that were

under construction. And so we felt it was reasonable to assume that that would be coming.

MR. BAKER: All right. Let's move now to another exhibit.

MR. OWEN: We'll mark this document as Exhibit 80 and receive it into evidence. It's a single sheet with the tag line "Apartment Revenue Analysis Impacts of Apartment Cap."

(The document referred to was marked and received into evidence as Exhibit No. 80.)

MR. BAKER: I think there's actually another page or so that goes with this that I maybe have neglected to copy. I may have to bring that back on Wednesday.

Q. But can you just tell us generally what this Exhibit 80 is.

A. Exhibit 80 is an analysis of the apartment rate cap. It uses Exhibit 64 as a base and looks at how the calculation that the company provided, the impact of removing the caps and then what was provided as part of the staff report.

Q. You said Exhibit 64, but I think you meant 54, didn't you?

A. Yes, that is correct. Exhibit 54.

MR. LEGG: Mr. Baker, do you have a single copy of the additional page with you, because we could certainly go have a copy made right now so we would have a complete exhibit.

MR. BAKER: It turns out I do have copies. All right.

I offer Exhibit 81, which is a three-page exhibit, Mr. Owen.

MR. LEGG: Are these three separate exhibits?

MR. BAKER: We're offering them as one exhibit. They don't all go to the point that we are just about to talk about, but they are related. So let me put all three pages in now. And I think for convenience, if you can each mark your pages 1, 2, or 3, because we'll refer to each of them separately, but put them in as one exhibit, Exhibit 81.

MR. OWEN: The document that you just gave us, that was "Impact Revenue Analysis Impacts of Apartment Cap," that was 80. Do you wish these next two sheets to be a separate exhibit?

MR. BAKER: Yes.

MR. OWEN: These two sheets will be Exhibit 81.

MR. BAKER: That's true, but one sheet has writing on the back side, which is the reason I said

three. But they are two sheets of paper and will be Exhibit 81.

MR. OWEN: Very good.

(The document referred to was marked and received into evidence as Exhibit 81.)

MR. BAKER: Just so the record is clear, Exhibit 81 consists of three charts. One is called "Impact of Increased Apartment Units." The second one is called "Impact of Decreased Apartment Migration to Recycling and Composting." The third is called "Summary of Tonnage Changes."

Q. So, Mr. Braslaw, does one or more of these pages relate to what you were just talking about?

A. It does. The first page of Exhibit 81 shows the impact on tonnage of the increased number of apartment units. So as part of the analysis that the company did, assuming that an increased number of apartment units would be coming online, that there will be some additional tonnage that was generated as a part of that additional activity.

Q. So this picks up the numbers that we are looking at previously in Exhibit 79?

A. That's correct. That's 900 units; and that's additional tonnage that they would generate based

on the minimum levels of service for both trash, recycling, and composting.

Q. Now, Exhibit 80 deals with the apartment caps, correct?

A. Correct.

Q. So how does the analysis that is reflected on the first page of Exhibit 1 [sic] tie into your analysis of caps?

A. Actually, it does not tie into the caps. It really only ties into -- page 1 ties into the additional revenue that would be generated by the growth. So the growth, in addition to generating revenue, will also generate additional tonnage.

Q. Go ahead. Since I'm not a hundred-percent sure where I'm going here, I'll just say what else do you want to say about this?

A. Thank you. The second page of Exhibit 81 is the impact of the change that the staff report proposed in apartment migration. The staff report proposed that there would be a decreased amount of migration from what the companies had included in the application. And so the companies did an analysis by changing that amount of migration, what would it do to the overall tonnage in the three categories, assuming that the migration that was anticipated was a movement

from trash to recycling and composting. If you've got lesser movement from trash to recycling, then you've got more trash tons and less recycling tons. So, again, Exhibit 2 is an estimate of the impact of making that proposal. To take a step back, the companies recognize that it's very difficult to project and anticipate how much migration will exist. We strongly believe that implementing the new apartment structure will elicit changes in behavior and will move people to migrate. But we also agree that it's difficult to determine exactly how much it was. Our original proposal was based on earlier experience in the commercial area. But we are not quite sure what that number is. We agree with the staff's recommended adjustment that we use 1.4 percent as a reasonable basis for migration. Again, we don't know what that number is. But it certainly will have an impact on the amount of tons that are generated in the various categories. And that's what page two of Exhibit 81 is intended to show.

Q. I just wanted to clarify that. You referred to this page at one point as Exhibit 2, but you meant page 2 of Exhibit 81?

A. Yes, that's correct.

Q. What is this third page of Exhibit 81?

A. The third page is a summary of the two.

So the third page is net impact of changes to all three streams as a result of anticipated growth and the proposed change in the level of migration.

Q. So staff proposed 1.4 percent as a more appropriate migration projection. As I understand it, Recology is accepting that modification to its application and in this exhibit is illustrating how that will play out in terms of tonnages?

A. That's correct.

Q. Then moving back to Exhibit 80, what is Exhibit 80's purpose?

A. Again, Exhibit 80 is an analysis of the apartment caps and impact of changes on the cap, starting with Exhibit 54, and then doing some calculations associated with that. Kind of the basic premise is that the number that's included in Exhibit 80 will change as the level of the rate increase changes. So the 4.571 million, the number that the companies have submitted as the amount of potential additional revenue under the cap, would be less if there was a lower rate increase. So moving the rate increase from 21.51 percent under the column that says "Staff Report" to 19.14 percent in the revised column, there's 3,822,924. That's the amount of additional revenue that could be generated under the cap from a rate increase of

19.14 percent.

Q. Wait a minute. 38 -- where is that again?

A. That's under the revised column. So if you look down in the third line in that column, that number represents the amount of additional revenue that could be generated under the cap and a rate increase of 19.14 percent.

Q. But you read number that I think might be different than the number on my page. And that's why I'm confused. What's the number again?

A. 3,822,924.

MR. BAKER: Is that what you have, Mr. Legg?

MR. LEGG: No. We have 3,824,157 on our -- it's within 2,000.

MR. BRASLAW: Now I have the right number. Let me say that again. 3,824,157.

MR. BAKER: So I just want to make sure that we've distributed the correct exhibit.

MR. BRASLAW: You did.

MR. BAKER: Thank you.

Q. So continue with your description of what the document shows.

A. So what we have done is first wanted to illustrate the point that, whatever the final increase is, will have an impact on the potential revenue that

would be available with the removal of the caps. So if it's 19.14 percent, it would generate on a gross basis a potential of 3,824,000. If it's 21.51 we estimate it would generate 4,571,055. So ultimately the adjustment -- the companies would propose that the final adjustment would be predicated on whatever the final increase -- approved increase percentage -- would be and the cap adjustment would have to be calculated at the time that we determine what that increase would be.

Q. So the staff report proposed that this adjustment be made to future COLA adjustments, correct?

A. That is correct.

Q. And the company is saying we can live with that?

A. The company will agree to that. We recognize that this is revenue that is generated in a period outside of the rate application of the one-year period; and the COLA adjustment is intended to impact that year. This is appropriate to be included at that same time.

Q. So you're offering Exhibit 80 as a template, so to speak, that could be used to determine what the future adjustment is, depending upon what the final rate increase that is decided upon? And you're taking the City's methodology and then showing how it

would be applied. Is that a fair summary?

A. That's correct.

Now, there's one additional adjustment that we made. It's in the revised column. And that's an adjustment for migration that's included in the application in Rate Year 14. When we did the calculation of the impact of removing the caps on additional revenue, it's based on the current customers and their current service configuration. So if we assume that there will be migration of 738,000 in Rate Year 2014 and that 738,000 is based on the revised 1.4-percent migration, then the amount of additional revenue available under the caps in those future years would be reduced by that amount. We are assuming that customers will adjust their service and revenue will go down by that amount during Rate Year 2014, so it would not be available in Rate Years 2015 or 16.

MR. BAKER: All right. So I have one more exhibit, which will be Exhibit 82?

MR. OWEN: We will mark the document as Exhibit 82 and receive it into evidence. The document is a single sheet with the tag line "Management Fee."

(The document referred to was marked and received into evidence as Exhibit 82.)

DIRECT EXAMINATION
BY MR. BAKER:
Q. What is Exhibit 82?
A. Exhibit 82 is a proposed adjustment or correction to the corporate fee allocation adjustment that is contained in the staff report.
Q. And why is that correction necessary?
A. There were a couple of things in the staff report that -- one, as it moved from the initial report to the final -- weren't picked up as changes. So the company went through -- in looking at the analysis -- went through and made a couple of corrections. I'll run through them.
If you look at the column entitled "Staff Report," the adjustments that were included based on the report from Calvin Lui -- that is Exhibit 69 -- anyway.
So when the staff made the adjustment and recalculated the rate increase percentage based on proposed adjustments, even though we had analyzed and agreed that the reduction in the fee at that point was 36,905, in fact, the actual number that got picked up for Sunset and Golden Gate was the original 127,484, which was before allocation to other Recology companies.
So there were some adjustments between the initial report that Calvin Lui produced. He requested

some additional information and then revised his final report, the final staff analysis -- actually, the staff report talks about an adjustment of 36,905, but the calculation included 127,484 for Sunset and Golden Gate. So the companies have put in this exhibit a revised column that adjustment is reflected. So the first thing is that the actual allocation percentage to the San Francisco companies went up slightly in the final analysis and the final report submitted by Mr. Lui. So the actual percentage is 40.1 percent in Table 1 in his report and the adjustment based on the $98,151 of adjustment that he identified should be $39,329. So that's the total adjustment coming out of his report. The two numbers that you see 82.25 and 17.75 those are the percentages that are allocated to Recology, sunset scavenger and Recology Golden Gate and Recology San Francisco. So that's a way to allocate the adjustment between those two companies; and then the resulting product is shown below. The adjustment for sunset and Golden Gate should be $32,348 and the adjustment to Recology San Francisco should be $6,981.
Q. Thank you. I think you weren't sure about Mr. Lui's analysis and you thought it might be Exhibit 69, but it's Exhibit 70, I think.
All right. Moving on to a couple of other

subjects.
We asked Mr. Drew earlier this morning about the pay per setout and the amortization period of three years versus seven years. Can you tell us what the company's position is on that proposal by the staff.
A. The company disagrees that that seven-year amortization would be appropriate. Much of the cost that's included in -- I believe was in that testimony and cross-examination of Mr. Drew -- those costs included outreach, they include labor costs to install the equipment, to perform the tests. Those are periodic costs that are not subject to capitalization. They are recognized for accounting purposes in the period that they're incurred and the companies proposed to amortize them over the three-year period. Again, because that's the assumption of the period that the rate will last in a normal case and from an accounting standpoint they'll be recognized in Year 1. So the company does not believe it's appropriate to amortize those over a longer period of time.
Q. Why then did the company propose three years? Why didn't the company just propose a one-year to make the amortization comport with the accounting treatment?
A. Because the assumption -- there's an

assumption that the rate will last for three years, that the companies recognize that it wouldn't be reasonable to request reimbursement of the entire cost during the rate year and have that same reimbursement carry over to Years 2 and 3. So the companies proposed a three-year amortization for those costs.
Q. So then let's talk for a minute about the subject that we discussed with Mr. Legg earlier, namely the abandoned materials program. Is the company keen on some sort of penalty provision?
A. We're not real keen on that. I think the concern is that there's lot of uncertainty. I think that there is some -- certainly, there's some debate, but in our experience that picking up material more quickly -- essentially having more coverage rather than reducing the amount of material that's out there, in fact, increases it, because unfortunately it encourages some people, I assume those that would be inclined to throw the material out in the streets to do that. I guess they are happy that the streets are getting cleaned up. So it's really the uncertainty of the program that kind of creates the concern on the part of the companies. We set performance goals and we'll certainly endeavor to meet those goals.
I think you asked the question about the

company's reputation. And that's extremely important to us. The company and Recology recognizes our partnership with the City, our responsibility. And I believe that we have demonstrated in the past we'll put resources in place to address the problem, even though unfortunately at times they're in excess of the amounts that are included in the rates. But that's a commitment that the companies make to fulfill our obligations and to help keep the city clean.

MR. BAKER: Thank you. That's all I have.

DIRECTOR NURU: Any cross-examination?

MR. LEGG: I think staff want to reserve cross-examination for Wednesday.

I do have a clarifying question about Exhibit 81, which is the three-page two-sheet exhibit concerning impact on tonnage. In introducing this, are the companies proposing that we would be making adjustments to collection processing and/or disposal expenses in the rate application to account for these additional funds? And have you done those calculations? Will you have those?

MR. BRASLAW: We've done some kind of preliminary work, haven't finalized the calculations. We don't anticipate that there's any really significant impact. There's some cost impact, primarily at the

processing side. It's on the margin in terms of impact on collection and the companies are not proposing that we increase collection costs associated with the changes. So we can complete the analysis, but we don't anticipate there's changes in terms of our cost structure.

We do however, because there's additional tonnage, believe that it would be appropriate to adjust the incentives accordingly to reflect final tonnage that's included in the rate order.

MR. LEGG: Okay. And going forward, since there is still -- I'm now referring to Exhibit 80 where you accepted staff's methodology but revised our calculations based on a new rate increase, you've provided us with a template essentially. But here you're -- I guess I want to back up.

When the companies submitted their application and included a cap that would be lifted gradually in Years 1 and 2, the theory was that you would not achieve that additional revenue in Rate Year 15 and Rate Year 16 because the companies would make -- apartment customers would make adjustments to service such that you would not realize those revenues. Have you made adjustments for tonnage in Rate Year 15 and Rate Year 16 based on the assumptions on apartment revenue that you're showing

in Exhibit 80?

MR. BRASLAW: We actually have not calculated tonnages in Rate Years 15 and 16. Because they're outside of the rate year for which the application is focused on we haven't included those tonnages. So we haven't determined what impacts those additional changes and the additional migration might have.

MR. LEGG: Okay. Thank you. Do other staff have any clarifying questions before we -- all right.

David Assmann is here to introduce the reserved Exhibit No. 74. So I would like to, Mr. Nuru, if it's okay, have David introduce that at this point.

DIRECTOR NURU: Please proceed, Mr. Assmann.

MR. ASSMANN: Thank you. Those are independent accountant reports. We audit the impound account every year. And these are the reports from 2008 through 2011 which we would like to introduce as Exhibit 74.

(The document referred to was marked and received into evidence as Exhibit 74.)

THE COURT: Okay. I think at this time we will go to public comment. Could everyone wishing to speak please give me a show of hands so can I allow time for every one to speak. One person. Okay. I'll allow

five minutes per person for public comment. Since this is public comment only, you do not need to be sworn in unless you also intend to present material you would like placed into the record. If that is the case, I'll have the clerk swear you in. Also, when you come forward, please state your name so that the court reporter can enter it into the record.

Thank you. And let's proceed with our speaker.

MS. WUERFEL: Good afternoon. My name is Nancy Wuerfel.

I want to thank staff for once again doing a very comprehensive job in getting a lot of detail about this rate application. The staff report is always, I think, extremely instructive. It's not always as complete as I'd like it, but I do give credit where credit is due.

I want to make a couple of comments on the comments that are in the end of report that have to do with a couple of things that aren't addressed.

The first thing that wasn't mentioned is the existence and continuance of having a ratepayer advocate. I put that in my request and comment, and so I want to make sure that's included. And that is a comment. And I want to make sure that everyone here today understands how vital it is.

Sometimes the information that is visible on a Website or the number of phone calls does not represent the ripple effect that a ratepayer effect does have in the community. As you know, you've seen me. You're not seeing other people, but it doesn't mean that I'm a quiet person. I am getting word out, to the best of my ability. And thank you for smiling. But the point is that I really think that these hearings need to have a lot more broad-based contact; and that is going to be essential to have a ratepayer advocate in the future to make sure that when people do want to become participants that they have someone to go to. So I just want to make that real clear. And I want to thank the Ratepayer Advocate for doing a spectacular job.

Also, I'd like to make just a couple of brief comments today. I'll be back on Wednesday with more. I want to make sure that you understand one of my other comments was to tell us in the taxpayer audience, not just the ratepayer audience, what DPW is going to do with the money, over three million dollars that you're going to be saving when the abandoned waste is transferred directly to the costs of Recology. It's not acceptable to me to hear that you're going to redeploy those dollars to other good things. I trust you to do

that. I just want to know exactly where they're going. because if you don't tell me where they're going, I won't be able to go down to the Board of Supervisors and decide whether your decision is my decision.

So since we do have a Board of Supervisors budget process, I'm going to be real, real clear that if you recycle these dollars into something that I don't think is appropriate that my ratepayer money is taxing, I might want to suggest that you don't have those dollars, that maybe the health department gets them or maybe rec and park gets them. You understand exactly what I am saying.

Let's be real clear that you are going to make me feel good about freeing up these bucks and tell me why. And, again, I'm going to put in a plug for street trees. They are your charge. I don't think the public is happy at all with getting street tree maintenance back on them. If you tell us you're going to start doing street trees, believe me, there will be roses on your desks not thorns. So let's hear from you where you're going to put these dollars.

Also, I want to make sure that the recycling revenue is really clear, that people are going to be buying into the zero waste issues that are going to come before them when they feel really good that we have

gotten a full accounting of what happens to that money. There's a mixed message in the responses about, well, gee whiz, when stealing happens, it's only maybe one percent of the rates. And then later on it's talked about that the recycling really is part of offsetting the rates. That's a very mixed message. And we've got to get it really clear.

People -- I can't tell you how mad they are. It's something visceral. Whether it's economic or not, it's just visceral. People don't like it. And you're going to have a backlash on these things that you can avoid. So I'm just suggesting right here and now that you start dealing with how this is going to be done. And to suggest that it's the judges and the juries -- I don't know. That doesn't solve the problem. I want people to get buy-in to zero waste. So you're going to have to be very believable about making sure that zero waste means that the revenue is contributing towards offsetting the costs.

Again, I want to thank everybody for the amount of energy that's been put into trying to clarify some of the very esoteric rate-saving money that you can find.

And I'll tie up my final comments on Wednesday. Thank you for your time.

DIRECTOR NURU: Thank you.

If there's no other speaker, I will close public comment. And no other speaker? Okay.

At this time I would like to continue the hearing till Wednesday, May 22nd, at 1:00 p.m. in Room 400. We will pick up the agenda items listed for that day.

And thank you for participating in these proceedings. We are now adjourned.

(The hearing session was concluded at 12:41 p.m.)

CERTIFICATE OF REPORTER

I, FREDDIE REPPOND, a duly authorized Shorthand Reporter and licensed Notary Public, do hereby certify that on the date indicated herein that the above proceedings were taken down by me in stenotype and thereafter transcribed into typewriting and that this transcript is a true record of the said proceedings.

IN WITNESS WHEREOF I have hereunto set my hand on this 17th day of June, 2013.

FREDDIE REPPOND