2013 RATE APPLICATION
SUMMARY OF SIGNIFICANT ASSUMPTIONS

Schedule C

Recology San Francisco

Recology San Francisco (RSF)
Summary of Significant Assumptions

The following schedule describes the projected revenues and expenses for Recology San Francisco as well as the assumptions underlying those projections.

I. OVERVIEW

Recology San Francisco operates material processing facilities located at the Tunnel and Beatty complex and Piers 94 & 96 in San Francisco. At the Tunnel and Beatty complex, RSF operates a transfer station, a material recovery facility (iMRF) for recycling construction-and-demolition (C&D) and other materials, an enclosed public disposal and recycling area with an adjacent covered sort line, an organics transfer area, a household hazardous waste facility, and scale facilities. RSF recycles asphalt and concrete at Pier 94. At Pier 96, RSF operates Recycle Central, which is a large-scale material recovery facility that processes residential and commercial recyclables.

II. TONNAGE

A. Incoming Tons

Total tonnage is based on incoming tonnage for the twelve months ending June 2012. Detailed tonnage projections are provided in Schedule E. While total tonnage collected and handled by the San Francisco Companies is expected to remain relatively constant for the two years through June 2014, it is assumed that changes in customer generation habits such as digital media will continue to reduce the mixed paper included in recycling programs processed at RSF's Recycle Central® facility. Tonnage shifts in operations at RSF's Tunnel and Beatty site are also expected, as additional compostable materials are diverted for composting through Urban Organics processing. City generated waste is excluded from the revenue tonnage base used for setting rates. Total revenue tons are the tonnages for which revenues are received.

B. Disposal Tons

The tons of waste delivered to the landfill for disposal are "disposal tons." Disposal tons are calculated by subtracting diverted tons from total incoming tonnage. Projected disposal tons are based on incoming tons for the twelve months ending June 2012, with an adjustment to account for the anticipated reduction in disposal tons due to existing programs as well as the processing of Urban Organics in 2013.

C. Diverted Tons

Incoming tons that are diverted from the landfill are "diverted tons." Diverted tons include commodities recovered at Recycle Central®, the iMRF, the PDRA, organics transfer operations, and other transfer station operations. These programs are discussed in more detail below.

III. DIVERSION PROGRAMS

A. Recycle Central®

1. Single-Stream Processing (Fantastic 3)

The Single-Stream sort lines at Recycle Central® process the commingled recyclables from the blue cart in the Fantastic 3 program. Currently, three Single-Stream sortlines are used to separate cardboard and mixed paper from bottles and cans, and an optical sorting container line is utilized to provide final sorting for the various containers in that stream.

2. Mixed-Paper Processing

The Mixed-Paper sort line continues to process dry waste with high paper content or for customers on a bag program. This waste is sorted by discarding the bagged garbage so that the remaining dry paper and cardboard can be run to a baler for recovery and recycling. Volumes for mixed-paper are projected to remain relatively constant over the upcoming rate period.

3. Source-Separated Processing

The Source-Separated program consists of collected materials that are presorted by the customer, as well as buyback and drop-off materials. These materials require no sorting and are ready to bale or store in bunkers with similar commodities ready for shipment. Volumes for source-separated activities are projected to remain relatively constant over the upcoming rate period.

4. Mixed-Commercial Processing

The Mixed-Commercial sort lines are designed to allow separation of recyclables from materials collected in San Francisco that are not presorted by the customer. Currently, there are two sort lines capable of processing dry mixed waste.

B. Construction-and-Demolition Recycling

Construction-and-demolition wastes are processed for recycling at the Integrated Material Recovery Facility (iMRF) adjacent to RSF's Transfer Station. The facility has been in operation since July 1, 2003. In this rate period, RSF plans to operate the facility with two shifts, five days per week and one shift on Saturday. Throughput is projected to remain relatively constant at 340 tons per day, and is assumed to have a diversion rate of 57 percent. Metal, wood, and fines used for alternative daily cover (ADC) make up the largest volume of recovered materials. Metal, plastics, and wood provide commodity revenues, while almost all other recovered materials require a disposal or processing fee.

C. Compostables Transfer

RSF uses a dedicated compostables only tipping and load-out area, known as the Organics Annex, in an existing building adjacent to the Transfer Station.

D. Public Disposal & Recycling Area

General trash and recyclables from the general public and from commercial customers with vehicles not suited to utilize the Transfer Station are processed for recycling at the Public Disposal and Recycling Area ("PDRA") seven days a week.

RSF operates a covered material sorting and recovery line five days per week to process self-hauled C&D and related materials.

E. Urban Organics

RSF expects to begin processing organic-rich material that is currently non-source separated by customers on the west side of the Transfer Station in February 2013. Material will be received from collection vehicles then loaded and processed through a trommel screen to remove large items. Any recyclable containers such as bottles and cans will be recovered from the trommel processing via manual sorting. The "unders" from the first screening will be loaded into a bio-separator which will separate the compostable material from other contaminants, such as film plastics. The resulting material will be loaded into end-dump trailers and taken to the EBMUD wastewater treatment plant in Oakland where it will be deposited into a digester and converted to electricity.

The Company expects to operate the equipment 12 hours per day, five days per week requiring three loader operators and three material handlers.

IV. HAZARDOUS WASTE PROGRAMS

The various hazardous waste programs, the Electronic Waste and Universal Waste Program, the Waste Acceptance Control Program, and the Safe Needle Program are referred to as "Special Wastes" in the cost schedules.

A. Household Hazardous Waste Collection Facility

The Household Hazardous Waste Collection Facility ("HHWCF") is operated four days per week and is open to the public three days per week (Thursday through Saturday). The facility accepts paint, batteries, used motor oil, solvents, household cleaners, and pesticides. Activities at the facility include bulking, packing, identifying unknown materials, and manifesting for shipment. The projections for the base program costs are based on current expenses and volumes at the facility.

B. Home and Drop-off Center Collection of Household Hazardous Waste

The rate application includes the program to collect HHW from homes, and to collect latex paint, fluorescent tubes, and pharmaceuticals from neighborhood drop-off locations. This program expanded the reach of the HHW services already offered at RSF's HHWCF at Tunnel and Beatty Avenues by providing residents with an alternative to driving to the facility by offering the collection of waste from homes and neighborhood drop-off centers.

HHWCF technicians pick up batteries and paint from existing neighborhood drop-off collection sites along with servicing the door-to-door collections.

C. Waste Acceptance Control Program

The Waste Acceptance Control Program ("WACP") is designed to fulfill the load-checking requirement of the Waste Disposal Contract with the Altamont Landfill. Loads at the various processing locations system wide, including the iMRF, PDRA, Organics Annex, and Recycle Central® are inspected for materials not allowed in the landfill. Projections for the program costs are based on current expenses.

D. Very Small Quantity Generator Program

Qualifying small business generators of hazardous waste in the San Francisco may use the HHWCF by appointment for a fee on special days. Very Small Quantity Generator (VSQG) appointments are available on two days each month. The projections for the program costs are based on current expenses.

E. San Francisco Safe Needle Disposal Program

The Safe Needle Program is designed to encourage San Francisco residents to properly dispose of used hypodermic needles and syringes. Sharps containers are provided to pharmacies and other drop-off locations. All other projections for program costs are based on current expenses with a modest increase forecast for an additional 10 retail stores to be added in 2014.

V. OTHER PROGRAMS

A. Solar Energy at Recycle Central®

In 2006, RSF entered into a joint project with the San Francisco Public Utilities Commission ("PUC") for the installation of photovoltaic cells on the roof of Recycle Central® at Pier 96. An 18,500 square foot, 245-kilowatt photovoltaic array was installed on the facility's south facing awning. Using renewable power is consistent with Recycle Central®'s mission, and every kilowatt of solar power used to sort recyclables decreases demand for grid-supplied electricity. Peak solar generation output corresponds with peak electricity demand time, resulting in maximum financial and environmental benefits. Over the last three years, approximately 545,000 kilowatts were generated annually from the solar array.

B. Energy Efficient Lighting at the Transfer Station and Pier 96

RSF will be having LED lighting installed by early 2013 at both the Transfer Station and Pier 96. In addition to improving the quality of the lighting, the energy savings from LED technology and automated light sensing monitors will be approximately 1,000,000 kilowatts annually.

VI. REVENUES

A. Tipping Fees

Tipping fees for processing, hauling, and disposal of wastes delivered by the collection Companies and other customers are determined by dividing total revenue requirements by total revenue tons. A system-wide tipping fee is used for all of RSF's operations, including all operations at the Tunnel Avenue and Beatty Road site and at the Recycle Central® facility at Pier 96. The tipping fee will be adjusted by the COLA mechanism in the years following Rate Year 2014, until a new Rate Order is issued.

B. Recycling Revenues

The recycled commodity price assumptions for materials processed at Pier 96 are based on the average of the actual prices received for the previous five years. All market risks for price variances will be borne by the RSF. Recycling revenue is calculated based on the projected recycled tons of a given commodity multiplied by the assumed price per ton based on the five year average for each commodity.

C. Impound Account

The funding for the Impound Account is based on the terms of previous Rate Orders. Contributions to the Impound Account are based on the payment requirements for (1) royalty fees to Alameda County, (2) regulatory fees associated with the Altamont Protocol Agreement, and (3) agreed funding of the Alameda County Open Space fees. RSF Payments from RSF are deposited into the Impound Account on a monthly basis.

The proposed funding for the Impound Account in this rate application is based on actual monthly tons delivered to the Altamont landfill, multiplied by the respective tonnage related fees.

D. Operating Ratio

The rate application utilizes a base OR of 91 percent, along with a Diversion Incentive (DI) equivalent to up to two percent of allowable expenses if the Companies achieve diversion targets, as described below.

E. Diversion Incentive

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

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

F. COLA

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

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

VII. EXPENSES

A. Wages

Union wages are based on ratified union contracts that run through December 31, 2016. The union wages included in the application contain COLA adjustments of 3% effective as of July

1, 2013 and January 1, 2014. The actual contractual COLA adjustment is between 3% and 5%, and any increase in excess of the 3% minimum will be borne by the Company. Future increases will be included in the COLA mechanism described above. Payroll expenses are computed based on the projected employee count and wage increases as described above. The employee count assumes changes to operations to meet the City's diversion goals. For example, employees are being added for additional processing at the Transfer Station for Urban Organics. Trash hauling to the landfill is based on projected outgoing tons, and recyclables and compostables hauling are based on increasing diverted volumes sent to end-markets and processors.

B. <u>Payroll Taxes</u>

Payroll taxes are projected based on current city, state, and federal tax rates.

C. <u>Health and Welfare (including Postretirement)</u>

Health and welfare costs offered through several service providers include medical, prescription drug, dental, and vision coverage, as well as long-term disability and life insurance.

During the last several years the Company has experienced increases in the cost of health care coverage that average over 10 percent per year. The current cost of coverage is over $1,800 per employee per month.

The Company has implemented changes to the non-union health benefits in an effort to control costs, including increased co-payments and benefit reductions. Union programs are governed by the contractual obligations and program changes are limited.

The projected cost contained in the rate application for health and welfare benefits is based on the 2013 costs, inflated by 8% for the second half of the year (health insurance rates are set on a calendar year basis and adjusted for rate years). The 8% inflation factor was developed by the Company's outside actuaries. The inflation estimate will be updated for the final application based on the best then available information.

The health and welfare cost projections include a reinsurance fee expected in 2014 as part of the Affordable Care Act. Early this year in March, Health and Human Services (HHS) finalized its regulations regarding the reinsurance fee. This fee applies to all employer group health plans starting in 2014. It is expected that for 2014, the fee will be in the range of $60-$110 per year, per covered life (not just per employee). The states will also have the option of collecting additional contributions for reinsurance payments (on top of the reinsurance contributions collected by HHS).

Postretirement costs in the rate application represent the cost of participation in the Teamsters Benefit Trust sponsored Retirement Security Plan (RSP). The RSP provides postretirement medical benefits for union members qualifying for retirement under terms of the collective bargaining agreements. The RSP cost is paid monthly for each eligible employee. The costs have increased approximately 12% per year over the last few years. The current monthly cost of the base program is $441.93 per month and is expected to increase by 11% to $490.54 as of July 1, 2013.

In addition to the base RSP program, the Company agreed to provide a supplemental RSP benefit, in exchange for elimination of the Recology Rule of 84 postretirement medical benefit (Rule of 84 Benefit). The supplemental RSP benefit reflects program changes designed to make the RSP mirror the Rule of 84 Benefit. This results in an additional premium of 10% of the base cost of the RSP, or approximately $49 per month per employee during the rate period. The total cost of approximately $230,000 is offset by savings of $1.6 million, based on the 2011 cost of the Rule of 84 Benefit program.

D. Pension

Pension costs are based on projected contributions required to meet Employee Retirement Income Security Act ("ERISA") pension plan funding requirements as determined by the Company's pension plan actuary. During the last few years, the Company, through their parent Company, Recology Inc., have made increased pension contributions, in an effort to improve the funding status and health of the Recology sponsored pension plan. The Company's share of the contribution in RY 2012 was $8.2 million, up from an average of $4.4 million during the last five year rate period Recology has also frozen the Plan with respect to new non-union personnel, who now participate in a defined contribution plan that is not subject to fluctuating funding requirements.

Contributions are expected to be $4.7 million in RY 2013 and $4.3 million in RY 2014. It is expected, based on actuarial analysis from Recology's third party actuaries that future contributions will be stable at approximately $4.5 million based on current expectations for discount rates, returns on assets and relatively static employment levels.

The Company also provides pension benefits for employees represented by Operating Engineers Local 3 under a separate union sponsored plan. The plan is funded as a cost per hour for each participating employee. The per hour fee for that plan is expected to increase 13% in 2013 and another 6.6% in 2014, based on information provided by the union.

E. Workers' Compensation

Workers' compensation expense covers the costs associated with workers injured on the job. These costs arise from temporary and permanent disability, medical care and medical evaluation, claims administration, insurance premiums, legal fees, and ancillary administrative functions. The Company participates in a risk pool with all other Recology operating Company. Workers compensation rates and allocations are established for the specific historical experience of each Company as prepared by a third-party administrator.

Workers' compensation costs have risen in general over the past several years due to increases in the indemnity payments and the return of double digit medical inflation leading to increases in the cost of medical care. Changes in legislation that led to decreases in some areas in the mid 2000s have been undercut by increases in benefits attributed to recent court decisions, and more liberal rules regarding disputes and appeals. The Company is continuing to focus on safety training, return to work programs and improvement in work processes. In spite of those efforts, workers compensation costs remain high and are expected to increase during the rate period. The cost of workers compensation is expected to increase 9% during RY 2013 and an additional 10% during RY 2014.

F. Property Rent

Property rent represents the cost for the lease payments to the Port of San Francisco for the Pier 96 facility and concrete and asphalt recycling operations at Pier 94. The monthly lease rates are determined by the signed lease, and are adjusted annually by a cost of living index, and adjusted every five years to fair market rent.

G. Liability Insurance

The Company participates in a risk pool with all other Recology operating companies to cost effectively manage the Recology insurance program. Liability insurance premium projections are based on information provided by the Company's insurance brokers, along with projected claims costs associated with fleet operations. Claims costs are allocated to the Company based on their individual claims experience. Other costs are allocated based on a series of measures developed to reflect each participating company's relative size and risk profile.

H. Hauling and Disposal Costs

The disposal costs for the rate period ending June 2014 are projected based on estimated tonnage and the disposal rate according to the disposal agreement with Altamont Landfill. Disposal tonnage includes residual trash from Recycle Central® as well as tonnage placed directly in the transfer station. All trash is hauled by the RSF

The hauling costs for the Recycle Central® operations for the rate period ending June 2014 are projected based on estimated recycled commodity tonnage. Certain recyclables are hauled by the long-haul fleet of RSF, although most recycled commodities are hauled to market by outside trucking companies. Costs associated with hauling to recycling markets are based on current haul prices, adjusted for expected chassis surcharges applied by the shipping lines used by RSF.

I. Other Processing Costs

Compostables require processing fees from third parties to be accepted by them. Such fees for diverted materials are included in processing costs and are based on tipping fees charged by compost facilities utilized by RSF, including Recology Grover and Jepson Prairie Organics. Tipping fees charged by these compostables processors are set at market rates.

J. Equipment and Vehicle Parts

Costs related to repair of equipment and vehicles are estimated based on past experience and the age and composition of the fleet and equipment.

K. Fuel and Oil

Costs are projected based on total tonnage volumes and miles for the transfer fleet, and historical usage for the support equipment. RSF plans to utilize five new-generation LNG transfer trucks starting in Rate Year 2014. Fuel costs are based on $3.95 per gallon for bio-diesel, $4.17 per gallon for regular diesel, $3.87 per gallon for off-road diesel, $3.65 per gallon for unleaded gasoline, $1.33 per gallon for LNG and $2.97 for propane. Fuel costs are subject to the COLA mechanism.

L. Maintenance Costs

Costs at Recycle Central are projected based on historical averages with an adjustment for inflation.

M. Utilities

Utility costs at Recycle Central® and the Transfer Station are projected based on historical usage, adjusted for new equipment and LED lighting as noted above.

N. Operating and Office Supplies

Costs at Recycle Central® and the Transfer Station are projected based on historical averages with an adjustment for inflation.

O. Tax, Licenses and Permits

Costs are projected based on existing fees , adjusted for inflation at 3% annually. Business tax is adjusted to reflect an increase of $178,000 resulting from the new Ordinance amending the Business and Tax Regulations effective January 1, 2014. Licenses and Permits also include a $2.1 million charge for a Brisbane recycling fee. This new annual fee, assessed by the City of Brisbane based on recycling activity within Brisbane City limits, is effective as of the year ended June 30, 2013 and beyond.

P. Professional and Contract Services

The projections for professional and contract services are based on current experience and the expected future needs for services during the next rate period.

Q. Corporate Services

Human Resources (HR) provides benefits, employment law and employee management support services. The cost projections are based on the estimated costs associated with Recology's HR Department. These estimated costs are allocated to RSF based on the percentage of their employees proportional to the total Recology employee count.

Corporate Management provides general operations and corporate support services. Corporate Management cost projections are based on the estimated costs of management services provided by the Corporate Office. These estimated costs are allocated to RSF based on their percentage of Recology’s total revenue.

Environmental Compliance provides planning, permitting and compliance support services. Environmental Compliance costs are based on costs of Recology's Environmental Compliance Department. These estimated costs are allocated to RSF based on their percentage of Recology’s total revenue.

Information Technology (IT) provides systems development and support for all technologies, including computers, phones, etc. IT costs are based on the costs of Recology's Information Technology Department. These estimated costs are allocated to RSF based on series of measures that approximate computer usage — the percentage of Recology’s checks written and customer counts that are attributable to RSF.

Corporate Accounting provides audit, internal audit, treasury and other financial services. Accounting costs are based on the costs of Recology's Finance Department. These estimated costs are allocated to RSF based on their percentage of Recology’s total revenue.

Sustainability provides support for sustainability issues, including emerging technologies, green energy and water initiatives and regulatory support related to sustainability and air, water and land use issues. Sustainability costs are allocated to RSF based on their percentage of Recology’s total revenue.

R. Office, Telephone and Supplies Expense

Costs related to telephone, office expenses and supplies are based on the RY 2012 cost, adjusted for inflation at 3% annually. .

S. Other Expenses

Other expenses include repairs, equipment rental, security, janitorial, facility repairs, utilities, and miscellaneous expenses. These expenses are projected based on RY 2012 actual results with a 3%annual adjustment for inflation.

T. Capital Expense

Capital requirements for trucks, equipment and leasehold improvements are projected over the rate period. Costs are added as equipment is acquired and leased over specified lease years. Generally, lease terms are assigned as follows:

Trucks and Rolling Equipment	7 years
Stationary Equipment	10 years
Facility Improvements	20 years

The lease rates are calculated based on the asset lives shown above utilizing an implicit interest rate of 3.71%. The interest rate is reset on a monthly basis, based on the cost of capital for Recology. RSF believe adequate financing will be available for all capital expenditures from Recology’s line of credit, lease lines with third party lessors, and/or California Pollution Control Financing Authority financing.

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