



Edwin M. Lee, Mayor
Mohammed Nuru, Director



Douglas Legg, Manager

February 8, 2013

John A. Legnitto
Vice President and Group Manager
Recology Sunset Scavenger, Recology Golden Gate, and Recology San Francisco
250 Executive Park Blvd., Suite 2100
San Francisco, California 94134-3306

Dear Mr. Legnitto:

On December 11, 2012, on behalf of Recology Sunset Scavenger, Recology Golden Gate, and Recology San Francisco (the “Companies”), you submitted to the Director of Public Works a draft rate application to change refuse collection and disposal rates in San Francisco effective September 1, 2013. DPW Order No. 180,851 provides that Department of Public Works (DPW) staff make a determination of completeness within 60 days of receipt of the draft application. The Order specifically states, “If DPW staff determines that the application is not sufficiently complete, it will notify the applicant of its decision in writing and will identify the specific areas of incompleteness. The applicant will have an additional 30 days to file the missing information.” This letter is to advise you of the staff’s findings.

Completeness of Draft Application

The Companies have prepared a draft application outlining the costs and revenues involved in providing refuse service to San Francisco residents and for meeting the City’s zero waste goals. The Companies have also worked with City staff to provide more detailed supplemental information and explanations where needed to better understand the application and aid the staff’s determination of completeness.

DPW staff have determined that the draft application is substantially complete, and includes the items specified in DPW Order No. 180,851, Section II(B)(1) – see Attachments 1, 2 & 3. While all items of have been addressed, a review of the final application is dependent on the Companies incorporating additional information in the final application, as detailed below. The City would like to receive this information as it becomes available.



Final Application

As noted above, the Companies have provided additional information to City staff that has been instrumental in understanding the draft application, and should be reflected in the final application. Upon submission, the final application also will be subject to the DPW Director's determination of completeness. Without the information listed below, the final application may be deemed incomplete:

1. Address the deficiencies identified in Attachment 1.
2. Revenues – provide a fuller articulation of the assumptions used in determining revenues by customer category (e.g., residential, apartment) and show the calculations that tie to the line items on SS/GG Schedule B2. Differentiate new revenue attributable to fixed and volume-based charges, number of units, migration assumptions, and other factors underlying the projections.
3. Interim financial results for rate year 2013 (RY13) – the draft application is based in part on four months of actual revenues and expenses for the current rate year, and it is my understanding that the final application will be based on seven months of actual data. This calculation should be transparent in the electronic schedules and you should be prepared to provide a general ledger schedule that supports the RY13 actual data used in the projections.
4. Incentive programs – must be sufficiently defined to allow evaluation of reasonableness and effectiveness.
5. COLAs – you are proposing to add a fifth component with a new escalation factor Health & Welfare (H&W). Provide the weighting for each of the five components, based on the values in the draft application (including the line items and/or schedules that make up each component), and the indices proposed for each component. Provide the calculation and supporting documentation for the proposed H&W escalation factor ("a five-year average of historical cost increases"), using your most recent five years of data. Also please explain why the diesel fuel index is appropriate based upon the mix of fuels Recology companies propose consuming.
6. Annual adjustments – describe how you propose to factor in the removal of caps in subsequent rate years.
7. Contingent rate schedules – provide more delineation of the processes, equipment, and costs associated with the Zero Waste Facility expansion and the West Wing project. Define the proposed events (i.e., triggers) that would allow the contingent rate schedules to go into effect, making those costs recoverable in the rate base.
8. In the absence of competitive bidding for composting services, provide an exhibit on the relative costs of Recology Grover, Jepson Prairie and other yard and food scrap composting providers, and a description of the quality of the output from Recology Grover, Jepson Prairie and their competitors. Provide a price list for materials produced at Recology Grover and Jepson Prairie.



9. Answers to the information requests submitted by DPW financial consultants NBS/R3.

The final application should include a table showing all changes between the draft and the final application and the reason for the change (i.e., based on 7 months actual, program redefined, due to typographical or computational error, etc.)

Modifications to Standardized Format

The Companies have requested changes to the standardized format specified in DPW Order No. 173,617, dated July 1, 2002. DPW staff is in agreement with the proposed modifications, but reserves the right to request additional exhibits that allow for evaluation and comparison with previous rate applications and rate orders. The Companies are also proposing to use combined information for the collection companies (SS & GG) in conformance with the 2006 Director's Report. Staff is in agreement with this approach.

We look forward to reviewing the Companies' final rate application.

Sincerely,



Douglas Legg
Manager, Finance, Budget & Performance

Cc: Mohammed Nuru
Melanie Nutter
HFH (RPA)
Jon Braslaw
John Glaub
Tom Owen



Attachment 1

DPW Order Section II(B)(1)	Description	Staff Comment/Evaluation
(a)	Narrative summary	Does not specifically outline the underlying assumptions regarding revenues and, to a lesser extent, expenses
(b)	Electronic spreadsheet	Where values are hard coded, and/or the basis for them is not apparent, the companies should provide calculations or roadmaps so staff and the public can understand and evaluate them. See Attachment 2 for specific values and spreadsheet cells.
(c)	Schedules specified in DPW Order No. 173,617 “Rate Adjustment Standardized Format”	See Attachment 3
(d)	Summary of projection assumptions	Need more complete description of revenue projections (underlying assumptions and calculations)
(e)	Audited financial statements	Provided for FY2007-FY2011; FY2012 should be provided with final application, if available
(f)	List of all leased assets	Complete
(g)	Evidence of competitive bidding process	Need to see comparables for composting services
(h)	Description of continuous improvement programs	Complete
(i)	Description of all permits, licenses, government authorizations	Complete
(j)	Appendix of reports filed per DPW Director’s 2006 rate order	Complete (one set provided to DPW)



Attachment 2

	Schedule	Reference	Items needing explanation, calculations or road maps.
SSGG	F1	Columns H & J	Changes to Revenues. Explain and provide calculations.
	D	Cells L24, O24 L39, O39 O43 O45 O51 O52	Fuel Property Rental Supplies Taxes New project costs Other expenses
	G1	Cells I31:I36 K31:K36	Sick, Vac & Holiday Off Sick, Vac & Holiday Off
	G4	Row	8 % of payroll
	L2	Cells D42:D52 D62	Tires Co collection repairs
	L5	Cells D11	What is the reduction of \$25,000?
	M2	Legal Fees	Why were RY 11 expenses so much higher than RY 12? Why should RY 13 be an average of those two years?
	RSF	D	L37 O37 O43
F1		Cells D9:D13 D15:D16 E9:E13 E15:E16	Too difficult to tie tons to schedule E. Please show source and provide a road map.
F4		Cells D7:E7	Non rate revenue
H1		Cells	City consultants will work with you to validate amounts shown on this schedule
J1		Cells E8:E14 E27:E31 F8:F14 F27:F31	What is source for tons? Need a road map. Other I/C Disposal Costs
J2		Cells B24:E24	Altamont Surcharge
J3		Cells D9:D17 E9 E12	Outside disposal costs
K1		Cells D7:D11 E7:E11	Processing tons. What is source for tons? Need a road map. Why are urban organics here?
K2		Cells D8:D17 E8:E17 D21:D30 E21:E30	Recycling purchases. What is basis for estimated tons? Price for purchases. What is basis for cost/ton?
L1		Cells D9:D10 E9:E10 D13:D14 E13:E14	Freight expenses. What is basis for loads shipped and costs?
L2		Cells D23:D24 D29:D30 D35:D42	Parts Tires & Tubes Repairs
L3 & L4		Loads Tons	What is the basis for estimated numbers of loads? All values hard coded. What is basis for total commodity tons hauled?
L5		Costs	What is basis for contract services costs in RY 13 and RY 14?
L6		Electricity	What is basis for change in kWh consumption and unit cost?
M2		Engineering Fees	Why were RY 12 expenses so much higher than RY 11? Why should RY 13 be an average of those two years? What is additional \$120,000 cost in RY 14?
		Legal Fees	Why were RY 11 expenses so much higher than RY 12? Why should RY 13 be an average of those two years? What is additional \$30,000 & \$50,000 cost in RY 13 & RY 14 respectively?
		Prof Services	Why were RY 11 expenses so much higher than RY 12? Why should RY 13 be an average of those two years?

Attachment 3

Rate Application Schedules Required by the City and County of San Francisco's "Rate Adjustment Standardized Format" (DPW Order No. 173,617)		Corresponding Rate Application Schedule, As Submitted	
Description	Schedule	RSS/RGG	RSF
Proposed Rates for Residential Refuse Collection	A.1	A	
Proposed Rates for Refuse Disposal & Recycling Processing	A.2		A
Rate Calculation of Residential Refuse Collection Rates	B.1	B.1, B.2	
Rate Calculation of Refuse Disposal Rates	B.2		B
Rate Calculation of Recycling Processing Rates	B.3		B
Summary of Significant Assumptions	C.1	C	C
Expense Summary and Financial Statements	D	D	D
Tonnage Summary	E.1		E
Cost and Tonnage by Program - Collection	E.2		
Cost and Tonnage by Program - Disposal & Processing	E.3		
Historical Data and Projected Revenue @ Current Rates	F.1	F.1	F.1
Projected Changes to Revenue @ Current Rates	F.2	F.1	F.1
Revenue Changes Associated with Program Implementation	F.3		
Impound Account	F.4	F.2	F.2
Recycle Revenue	F.5		F.3
Projected Commodity Prices	F.6		F.3
Other Revenue	F.7	F.1	F.4
Payroll Headcount and Expense Summary	G.1	G.1	G.1
Employee Pension Expense	G.2	G.2	G.2
Health Insurance Expense	G.3	G.3	G.3
Workers Compensation Insurance	G.4	G.4	G.4
Summary Capital Requirements	H.1	H.1	H.1
Detail Capital Items and Lease Calculation	H.2	H.2	H.2
Depreciation	H.3	H.3	H.3
Liability Insurance	I.1	I	I
Sanitary Fill Disposal Costs	J.1	J.1	J.1
Disposal to Altamont Landfill	J.2		J.2
Disposal to B & J Landfill	J.3		J.1
Other Disposal Charges	J.4		J.3
Recycle Processing Cost	K.1	K.1	K.1
Recycle Purchase Cost	K.2		K.2
Hauling Costs	L.1		L.1
Repair and License Costs	L.2	L.2	L.2
Fuel Cost	L.3		L.3
Bridge Tolls	L.4		L.4
Contract Services	L.5	L.5	L.5
Administrative Expense	M.1		
Professional Services	M.2	M.2	M.2
Corporate Services	M.3	M.3	M.3
Allocated Truck Maintenance Expense	N.1		
Allocated General & Administrative Expense	N.2		

Schedule Provided As Required	
Schedule Provided, but Numbering Changed	
Schedule Not Provided in Rate Application but Submitted under Separate Cover	
Not Applicable	
Recology Requested Schedule be Eliminated per Section K of Rate Application	

Note: RSF Submitted an additional schedule not required by the Rate Adjustment Standardized Format, Schedule L.6 - Utility Expenses.

Note: Recology also recommended eliminating Schedule M.5 although there is no such schedule identified in the Rate Adjustment Standardized Format.