

**2013 RATE APPLICATION
SUMMARY OF SIGNIFICANT ASSUMPTIONS**

Schedule C

Recology Sunset Scavenger
Recology Golden Gate

Recology Sunset Scavenger/Recology Golden Gate Schedule C – Summary of Significant Assumptions

The following schedule describes the projected revenues and expenses for Recology Sunset Scavenger and Recology Golden Gate (“the Companies”) as well as the assumptions underlying those projections.

I. PROGRAMS

A. Overview

The trash, recycling, and composting collection programs currently operated by the Companies will continue without significant changes in Rate Year 2014 (RY2014). Assumptions associated with these programs, including proposed changes, are described in the following sections. The total tonnage collected by the Companies is based on tonnage for the twelve months ending January 2013, with the exception of (1) the trended reduction in trash tonnage from continued migration to recycling and composting services and (2) the addition of tonnage from abandoned materials collection.

B. Fantastic 3 Trash and Recycling

A total of 132 Fantastic 3 trash and recycling co-collection routes are assumed for the projected rate period. The number of co-collection routes is expected to remain relatively constant through the rate period, even with continued migration towards diversion services, as most of the growth in diversion is in composting.

C. Fantastic 3 Composting

The continued expansion of the composting program has led to an increase in the number of composting routes. The last rate setting process assumed 29 Fantastic 3 composting routes in 2011. There are currently 31 Fantastic 3 composting routes. The number of Fantastic 3 composting routes is not projected to increase during the rate period, even with continued migration towards diversion services. As the utilization of composting service increases it will become necessary to adjust routes to respond to increased demand.

D. Commercial Recycling

The Companies currently operate 14 commercial recycling routes per day. As commercial customers adjust to the revised rate structure there may be some migration towards recycling services, but routing efficiencies should allow the Companies to absorb any change in the customer composition or volume of materials. The total number of commercial recycling routes is not projected to change during the rate period.

E. Commercial Composting

The Commercial Composting program is currently operating with 18 routes per day. The program is expected to continue growing as more customers convert trash service to composting service. 1 additional route is included in the projection for RY 2014.

F. Bulky Item Recycling

The bulky item recycling program, which allows for convenient collection of over-sized items, is available to residential ratepayers (two service appointments per customer per year) and to apartment owners and tenants (one service appointment per unit plus one building appointment per year). A significant percentage of materials collected in this program are diverted. The program accepts appliances, electronics, mattresses, furniture, scrap metal, wood, etc. The program currently operates with an average of about 8 trucks and 8 drivers per day. The program made approximately 32,800 stops during RY 2012 and collected approximately 4,150 tons of material. We currently do active outreach and therefore expect to remain at this level through the upcoming rate period.

G. Public Litter Cans

The Companies service all public litter cans on a daily basis within regularly assigned collection routes. In addition to that first collection, the Companies collect many of the public litter cans in the downtown area and the business corridors one to four additional times per day. The Companies currently operate 10 dedicated public litter can routes. In addition to the first pass collection and multi pass routes, the Companies utilize a dedicated rover truck in the downtown shopping district during the holiday season and for events in order to empty public litter cans which require additional service. The Companies have coordinated with the City's 311 dispatch system and are committed to servicing, within a two hour window, any public litter can reported as needing service. The Companies have offered to provide additional support to DPW for City can maintenance, including replacement of liners, locks, and broken doors. Supplies would be provided by DPW and Recology would provide this service without adding personnel.

H. District and Special Clean-up Events

The rate application includes costs for two annual clean-ups in each Supervisorial District. Additional driver time and tonnage is included in the expense projections to accommodate the expanded schedule. The program has also been expanded to include a compost give-away for residents in each District. In addition, the Companies are periodically asked to provide additional service to support community clean-up activities (coastal clean-up, Arbor Day, etc.).

I. Abandoned Materials Collection

The Companies have proposed, at the request of the City, the assumption of the majority of the abandoned materials collection program currently operated by DPW. This proposed program includes the collection of items identified through the City's 311 reporting system, along with abandoned materials identified by Company personnel. The program will be operated similar to the Bulky Item Recycling program, with utilization of five rear-loading packer trucks, five box vans (mattresses, electronics, appliances, etc.), and one pickup. Each crew would consist of two

drivers, one in a rear loader and one in a box van. Drivers would be assigned to a specific service area, and would be routed to collect abandoned materials reported through the 311 system, along with any abandoned materials present on their routes, even if it is not part of the 311 calls. All stops and collections will be documented. This program structure will improve collection and diversion of abandoned materials.

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

II. REVENUES

A. Residential Rates

As discussed in the Narrative Summary included with this application, the Companies are proposing to change the residential rate structure. The new rate structure for residential customers includes a nominal charge of \$2.00 per 32 gallons of capacity for recycling and composting streams. This charge is not expected to impact the level of recycling and composting service provided. Customers are still incentivized to move towards recycling and composting service as the proposed volumetric charge for these services is substantially less than the proposed volumetric charge for trash service.

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

Individual residential customer rate increase percentages will vary depending on their respective volume and composition of service. Customers that in the past have received additional diversion services without a specific charge related to that service may see rate increases greater than the average increase. Residential rates are calculated to generate 21.51% additional revenue. The rate application includes, after adjusting for the revenue generated by the fixed charge and blue and green charges above, a single 32-gallon black bin rate of \$25.51 per month.

The variable cost for 20-gallon trash service is revised to reflect a proportional volumetric charge for that service. The cost for the 20-gallon bin is 62.5% of the cost of a 32-gallon black bin, revised from 77% previously. Other charges, including the \$5.00 per dwelling unit charge and volumetric charges for the recycling and composting services, will apply to 20-gallon customers.

B. Apartment Rates

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

and the widely varying levels of service for individual customers, individual increases may be more or less than the 21.51% increase requested.

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

In addition, the proposed structure includes volumetric charges equal to \$25.51 per 32 gallons of weekday service, irrespective of type of service. This volumetric charge applies to all service volumes and is consistent with the residential black bin charge. The resulting calculated gross revenue is partially offset by the discounts available for diversion services, as described below.

Discounts of up to 75% are calculated from each customer's diversion percentage as a percentage of total volume, less 10%. The first 10% of diversion is not eligible for a discount due to the fact that there is a minimum level of diversion service required by the mandatory recycling and composting ordinance. As an example, if a customer has 3 equal size containers (one for each of the black, blue and green streams) they have 67% diversion capacity. The discount they would receive on their volumetric charges is 57% (67% - 10%). If the customer added another recycling bin, the diversion discount would become 65% (75% - 10%).

As a result of the change in rate structure, the Companies are anticipating that apartment customers will move from trash service to diversion services and will reduce overall service levels to manage their cost and mitigate rate increases. The Companies have included in the application a revenue reduction for migration estimated at 2.5 percent of existing apartment revenue before rate adjustments and are anticipating additional migration in subsequent years.

To partially mitigate the impact of implementing this structural change, the Companies are proposing to include a two-year cap for all apartment customers. The first-year cap would limit the increase under the new structure to 25 percent of current charges, moving to 50 percent in the second year, and finally 100 percent, or the full effect of the structure, in the third year. The caps will allow ample time for customers to embrace the new structure and adjust service levels to mitigate further rate increases. It is anticipated that changes to service levels and configuration will offset any additional revenue generated by the removal of the caps.

C. Disabled Service

The rate application continues the disabled service program. This program provides for a waiver of key, distance, and elevation charges for disabled or elderly infirm persons if no able-bodied person resides with such persons.

D. Low Income Discounts

The low income discount program will continue. The program will charge low income customers 75 percent of regular service rates, based on their service configuration. Eligibility documentation for customers and verification procedures for the Companies will remain the same.

E. Commercial Rates

The Companies are implementing some minor changes to the commercial rate structure. The changes are designed to maintain a sustainable revenue stream within the context of movement towards zero waste, along with creating new incentives to drive further diversion by commercial customers. Commercial revenues are expected to increase as a result of the structural changes and are included in the rate model as a reduction of the revenue requirement used to calculate residential and apartment revenue requirements. Commercial rates will be adjusted to allow for an overall increase approximately equal to the final approved residential and apartment revenue increases.

The fixed rate is moving from 5% to 10% of each commercial bill. This change moves the fixed cost component closer to the actual fixed cost as a percentage of total cost. The variable component is correspondingly changed from 95 percent to 90 percent of each commercial bill.

Discounts of up to 75% of the variable component of the commercial billings are still available based on the proportion of diversion service in excess of 10% and up to 85% of total volume. The first 10% of diversion is no longer eligible for a discount due to the fact that there is a minimum level of diversion service required by the mandatory recycling and composting ordinance. For example, if a commercial customer has one 96-gallon bin for trash, one for recycling, and one for composting, all collected once a week, then total diversion volume represents 67 percent. The discount for this customer would be 57% (67% - 10%). If a customer has one 2-cubic yard bin for trash, one 1-cubic yard bin for recycling, and one 1-cubic yard bin for composting, all collected once a week, then total diversion volume is 50 percent and the discount would be 40% (50% - 10%).

As a result of the change in rate structure, the Companies are anticipating that commercial customers will move from trash service to diversion services and will reduce overall service to manage their cost. The Companies have included in the application a revenue reduction for migration estimated at 2.5 percent of existing commercial revenue before rate adjustments
Companies

F. Debris Box Service

Debris box revenues are projected based on the latest twelve months revenue. They are assumed to remain flat through the rate period and will be adjusted with the COLA mechanism in future periods.

G. Other Revenues

The Companies offer compactor and related equipment sales and maintenance for the San Francisco region. Customers wishing to acquire specialized refuse equipment have the option of purchasing, renting, or leasing the necessary equipment from the Companies. The Companies also provide maintenance service for refuse equipment at customers' expense. These revenues are shown separately and serve as an offset to the revenue requirement for regular service.

H. Impound Account

Contributions to the Impound Account are based on the program and payment requirements for the City's Department of the Environment and Department of Public Works. Payments from the Companies will be deposited into the Impound Account on a monthly basis.

I. Operating Ratio

The rate application utilizes a base operating ratio (OR) of 91 percent, along with Zero Waste Incentives equivalent to up to two percent OR if the Companies achieve targets, as described in the Narrative Summary.

J. Special Reserve Surcharge

The Special Reserve Fund has reached its minimum target level of \$15 million. Therefore, the Companies are proposing to discontinue the 1.3% volumetric surcharge, which is currently being utilized by DPW for waste management programs.

III. 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 COLAs of 3% effective as of July 1, 2013 and January 1, 2014. The actual contractual COLAs are between 3% and 5%, and any increase in excess of the 3% minimum will be borne by the Companies. Future increases will be included in the COLA described in the Narrative Summary.

B. Payroll Taxes

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

C. Health and Welfare (including Postretirement)

Health and welfare programs are offered to Recology employees 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 Companies have experienced significant increases in the cost of health care coverage. The current cost of coverage is over \$1,900 per employee per month and is expected to exceed \$2,000 per month in rate year 2014.

The Companies have 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 6.6% for the second half of the year (health insurance rates are set on

a calendar year basis and adjusted for rate years). The 6.6% inflation factor was developed by the Companies' outside actuaries and is based on historical cost increases.

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). 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 Companies 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 \$300,000 is offset by savings of \$3.7 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 Companies' pension plan actuary. During the last few years, the Companies, 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 Companies' share of the contribution in RY 2012 was \$20 million, up from an average of \$10.9 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 \$14.5 million in RY2013 and \$12.9 million in RY2014. It is expected, based on actuarial analysis from Recology's third party actuaries, that future contributions will be stable at approximately \$13 million based on current expectations for discount rates, returns on assets and relatively static employment levels.

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 Companies participate in a risk pool with all other Recology operating companies.

Workers' compensation rates and allocations are established based on 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. 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 Companies are 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 approximately 10.0 percent in 2013 and 9.8 percent in 2014.

F. Liability Insurance

The Companies participate 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 Companies' insurance brokers and actuaries, along with projected claims costs associated with fleet operations. Claims costs are allocated to the Companies 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.

G. Disposal Costs

Disposal costs are determined based on the estimated disposal tonnage and the projected tipping fee at Recology San Francisco. The estimated disposal tonnage is based on current tonnage collected, with disposal tonnage adjusted downward for increases in recycling and composting services as well as additional black bin processing. See Recology San Francisco Schedule C for a more detailed discussion of disposal costs.

H. Repairs and Maintenance

Projected costs related to repair and maintenance of vehicles are calculated based on the average costs from RY2010 through RY2012, inflated by 2.2% for the rate application period.

I. Fuel

Fuel costs continue to be volatile and have changed (up and down) dramatically over the last several years. Fuel costs for the rate application period are based on the average actual costs from the last 12-month period (February – January). Fuel costs are based on \$3.95 per gallon for Bio-diesel, \$3.65 unleaded gasoline, and \$1.29 per gallon equivalent for LNG. The Companies are continuing the effort to replace the fleet with CNG fueled vehicles. CNG costs in the rate application are based on RY2012 price, inflated by 2.0% in RY2013 and 2.2% in RY2014, adjusted for the 60 CNG trucks expected during the 2014 rate period. The cost per gallon equivalent for CNG is projected at \$2.37 in RY2014.

J. Licenses and Permits

Licenses and permits include costs for Department of Motor Vehicle registrations, Department of Public Health license fees, and Department of Public Works debris box permits. Costs for Department Public Health license fees are based on actual amount paid in 2013. Costs for other licenses and permits for rate years 2013 and 2014 are expected to increase with inflation (2.0% and 2.2%, respectively) from 2012 levels.

K. Recycling and Composting Processing

The processing fees for recyclables are projected based on the tipping fee and the estimated tonnage processed at Recycle Central. The processing fees for compostables are based on the tipping fee charged at RSF and estimated tonnage to be delivered.

L. Professional and Contract Services

Professional services costs for legal and general services are based on the average costs from RY2011 and RY2012, inflated by 2.2%. Accounting and engineering fees are based on RY2012 actual, adjusted for 2.0% and 2.2% inflation for RY2013 and RY2014, respectively. In addition, costs associated with the rate application and rate implementation are included in the rate application period. While this rate covers a one-year period, the Companies are proposing to amortize these costs over three years. Contract services costs are based on RY2012 costs, reduced by lower temporary replacement, and inflated by 2.0% and 2.2% for rate years 2013 and 2014, respectively.

M. Corporate Services

Human Resources (HR) provides benefits, employment law, employee training and employee management support services. The cost projections are based on RY2012 costs associated with Recology's HR Department, adjusted for inflation. These costs are allocated to the Companies 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 RY2012 costs of management services provided by the Corporate Office, adjusted for inflation. These costs are allocated to the Companies based on their percentage of Recology's total revenue.

Environmental Compliance provides planning, permitting and compliance support services. Environmental Compliance costs are based on RY2012 costs of Recology's Environmental Compliance Department, adjusted for inflation. These costs are allocated to the Companies 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 RY2012 costs of Recology's Information Technology Department, adjusted for inflation. These costs are allocated to the Companies based on series of measures that approximate computer usage — the percentage of Recology's checks written and customer counts that are attributable to the Companies.

Corporate Accounting provides audit, internal audit, treasury, and other financial services. Accounting costs are based on the RY2012 costs of Recology's Finance Department, adjusted for inflation. These costs are allocated to the Companies 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 based on RY2012 costs, as adjusted for inflation. Sustainability costs are allocated to the Companies based on their percentage of Recology's total revenue.

N. Office, Telephone, and Supplies Expense

Costs related to telephone and office expenses are based on the RY2012 cost, adjusted for inflation at 2.2% annually. Supplies expense is based on an average from the last three rate years (RY2010 – RY2012), inflated 2.0% and 2.2% for rate years 2013 and 2014, respectively, along with additional supplies for the Abandoned Materials Collection and Less-Than-Weekly-Service project.

O. Property Rental

Property rental costs are included for leasing off-site office space for customer service and administrative operations.

P. Other Expenses

Other expenses include community outreach, medical expenses, shoes and uniforms, bank service charges, and other miscellaneous items. Community outreach costs include cost of working with community groups to promote zero waste initiatives and promote Recology and City recycling and composting programs.

Q. Capital Expense

Capital requirements for trucks, equipment and leasehold improvements are projected based on the replacement schedule and anticipated facility and program needs. 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	15 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. The Companies 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.