A P P E A R A N C E S

FOR DEPARTMENT OF PUBLIC WORKS:

Mohammed Nuru, Director
Douglas Legg
Nathan Rodis
City Hall, Room 348
1 Dr. Carlton B. Goodlett Place
San Francisco, CA  94102-4645
(415) 554-6920

FOR DEPARTMENT OF THE ENVIRONMENT:

David Assmann
Robert Haley
11 Grove Street
San Francisco, CA  94102

FOR OFFICE OF THE CITY ATTORNEY:

Thomas Owen, Deputy City Attorney
Thomas M. Bruen, of Counsel
City Hall, Room 234
1 Dr. Carlton B. Goodlett Place
San Francisco, CA  94102-4682

FOR THE RATEPAYERS:

Peter Deibler, Ratepayer Advocate

FOR THE COMPANY:

Michael J. Baker, Esq.
Gabriel White, Esq.
ARNOLD & PORTER
Three Embarcadero Center, 7th Floor
San Francisco, CA  94111-4024
(415)471-3143

MEMBERS OF THE PUBLIC:

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Nancy Wuerfel
Irene Creps
Jeanette Berger
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Friday, April 12, 2013 1:03 p.m.

PROCEEDINGS

DIRECTOR NURU: Good afternoon, everyone. Let the hearing please come to order.

Ladies and gentlemen, I am Mohammed Nuru, the Director of Public Works for the City and County of San Francisco. I will be the hearing officer for these proceedings. The date is April 12th, 2013. And this is the first in a series of hearings to discuss the City's residential refuse rates.

On March 14 of this year, an application to raise residential rates was filed with the Chair of the San Francisco Refuse Collection and Disposal Rate Board. The application was filed by Recology Sunset Scavenger, Recology Golden Gate, and Recology San Francisco. We refer to these three companies collectively as Recology, or the Applicant.

The application is for the rate year starting on July 1st, 2013, and includes a formula to change rates annually for cost-of-living adjustments. The COLA adjustments will continue until there is a new rate order. The application seeks a rate increase equal to an average of 21.51 percent for each residential and apartment customer. Recology also proposes to introduce a fixed household charge and separate charges for
containers for recyclables and compostable materials. That is the blue and green bins. Recology is also proposing changes on how apartment charges are calculated, introducing a fixed charge for each apartment and credits for recycling and composting volumes.

These hearings are conducted to discuss the costs and services that go into calculating refuse collection and disposal rates. The City is required to hold these hearings under an ordinance enacted by the voters in 1932. In addition to the rules set forth in the ordinance, DPW has adopted rules of procedure for these hearings. Copies of the procedures are available at the back of the room. The planned agenda for today's hearing is in the back of room.

I will go over briefly how we plan to proceed today and in subsequent hearings. We have this room only until 5:00, so I ask you to help me stay on schedule.

We begin with introductions.

Before we go any further, I would like to introduce Mr. Freddie Reppond, who will transcribe our meeting today. I request that everyone who speaks today, witnesses and others, to please bear in mind that Mr. Reppond has a very tough job. So please speak...
clearly and into the microphone so that he can take your entire testimony.

One more piece of housekeeping. I would 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.

Mr. Nathan Rodis, please proceed with your announcement.

MR. RODIS: Good afternoon.

Title VI of the Civil Rights Act requires equal and equitable access to the Department of Public Works program activities and services. To document that the department is in compliance with Title VI, we ask that everyone attending and participating in today's hearing complete a public participation survey. However, this survey is optional and completing it is not required for participation. The data that you provide will be analyzed and used to ensure residents and stakeholders in the community are involved in the refuse rate hearing process. The information will not be used for any other purposes.

You will find this survey on the sign-in table. Please place completed survey forms in collection boxes.
Thank you.

DIRECTOR NURU: Thank you, Nathan.

Now I'd like to introduce some of the other City staff who are here and will be participating on the proceedings.

We start with Douglas Legg, head of finance and budget at DPW.

Robert Haley, head of zero waste program at Department of Environment.

David Assmann, deputy director for the Department of Environment. Is David here? He'll be here soon? Okay. All right.

Tom Owen, deputy city attorney, who will represent the City on legal matters in these proceedings. Want to stand up so people see?

Tom Bruen, special counsel for the City.

And Peter Deibler, who is the taxpayer advocate. His job is to facilitate the participation of residential ratepayers. And I hope that you will consider him to be your resource in this process.

Okay. Let's talk about the proceedings. I want to say a few things about these proceedings. The 1932 ordinance requires the DPW director to make a decision on the residential refuse rates within 90 days of the application being filed. For us, that date is
June 12th. During the 90-day review period there will be several hearings which will allow the Applicant companies and the public to put before me information, concerns, and recommendations regarding the issues raised by this application.

The Director has a duty to recommend just and reasonable rates and to order studies and investigations beyond assertions of Applicant and the claims of the companies. I have requested that City staff review and evaluate the rate application and to make further necessary studies. And the staff's findings and recommendations will be presented in future hearings.

Some of you may have attended our workshops which we held on January 17th and March 21st of this year. Those workshops were required by the last Director's Order from 2006. Those workshops were intended to be a more informal way of obtaining information about rate increase requests. They were not reported and were much more casual than these hearings will be.

These proceedings will be on the record. That means they will be transcribed and will become evidence and the basis for my decision. Unless information is submitted on the record, I cannot consider it in making any decision and the Rate Board cannot consider it in
reviewing my decision. Information obtained and
exchanged at the workshops were not on the record, so
anything submitted or discussed at those workshops needs
to be resubmitted here to be considered. Anything said
at these hearings and any document introduced as an
exhibit will be considered to be part of the hearings
records. I will weigh this information in making my
decision.

The purpose of today's hearing is to hear
testimony from the companies in support of their
application; to ask the companies about the application;
and to hear public comment on the application. The
companies and the City will be introducing exhibits
which will become evidence in the proceedings. Anyone
planning to introduce exhibits should bring several
copies of each so that everyone can follow along.

Let's go over today's agenda. In a few
minutes, the companies will be allowed to make an
opening statement. After the opening statement, the
companies will present their detailed case and introduce
exhibits and expert testimony in support of the
application.

Today we will also hear from City staff on the
City's costs that go into the residential rate. We
sometimes refer to these costs as "impound account
costs," so called after the name of the account.

We will also hear about the special reserve fund.

We will then hear from the Ratepayer Advocate about his efforts to inform and engage with the public about the rate application.

We will reserve the last period of today's hearing and of everyday's hearing for public comment.

This hearing will be continued till next Monday, April 15th, also beginning at 1:00 p.m., but in Room 416. The topics for the Monday session are also listed on the agenda. And if time permits, we may take up one or more of those items today. We also have two more hearings scheduled for Monday, April 22nd, and Wednesday April 24th, at which we will hear further testimony from the companies and the City. And the Ratepayer Advocate will have a chance to ask questions of their witnesses. Again, we will take public comment each day before we adjourn. The agenda for those two days will be posted on DPW's website next week.

Members of the public are welcome to participate in these proceedings in two ways. First, members of the public may speak during public comment period and may offer materials to be included as an exhibit in the hearing record. Members of the public
may also engage with the Ratepayer Advocate, who will do
his best to represent the public's interests during
cross-examinations. Mr. Deibler will be present at all
the hearings.

If you desire to speak during the public
periods, please fill out a speaker's card which are
available in the rear of the room and give it to the DPW
clerk, Nathan Rodis. I will apply time limits uniformly
to members of the public wishing to speak.

After this initial set of hearings in April,
City staff will prepare a draft report on the
application based on the testimony at the hearings and
any additional information staff has gathered. The
staff report is scheduled to be released around May 10
and will be the subject of additional scheduled hearings
for May 20th and May 22nd. I believe that these
hearings should allow for all issues to be raised and
commented on by all parties. However, if necessary,
additional hearings will be scheduled before I issue my
report and recommended order in early June.

I would also note this year we have an
additional requirement pursuant to Article XIII D,
Section 6, of the California Constitution, also known as
Proposition 218. Under this provision any residential
customer or property owner may submit a written protest
against the application to me. I will hold a separate hearing on May 30th at 2:00 p.m. to consider written protests received of that date. If more than half of the ratepayers file a written protest against the application, the City will not approve the application. The guidelines for submitting written protest are available on DPW's Website in three languages, English, Chinese, and Spanish. And copies are also available at the back of room.

Please note that while the public comment for and against the application will be taken on every hearing date, protest under Proposition 218 must be in writing and must conform to the requirements specified in that article to be considered valid. Those requirements are spelled out in the guidelines. Written protests may be submitted at any of these hearings, at the May 30th hearing, or by delivering to DPW offices in Room 348 here in City Hall in advance of the May 30th hearing.

Also, if you want to be notified of future hearings, if you want a copy of the recommendations I will make to the Rate Board, or if you want to be notified of the hearings before the Rate Board, please make sure you have printed your mailing address or email address clearly on the sign-in sheet.
We will talk about the Rate Board proceedings.

As required by ordinance, I will file my report on the recommended order no later than June 12th of this year, 2013, to the Chair of the Rate Board. Any party objecting to my recommendations must file an objection within 15 days with the Chair of the Rate Board. If no objections are filed, then my recommended order will be deemed the order of the Rate Board and will take effect no earlier than August 1st. If any objections are filed, then the Rate Board will hold a hearing on those objections. Based on the record from this hearing, the Rate Board can grant or deny the objections. As noted, the Rate Board is not permitted to consider any new evidence beyond what is presented in the record of these hearings during this 90-day review period. In the event that the Rate Board does not make a decision within 60 days, my recommended order will be deemed final.

I would like to reiterate one point that I just mentioned. If you don't like the results that come out of the hearings at this level, you make an objection to the Rate Board and the Rate Board will make the final decision. Because the Rate Board is like an appeals court, the Rate Board will not hear new evidence. The Rate Board will only hear arguments relating to the evidence and recommendations developed in these DPW
hearings. So this is the place where you get your position on the record and put in any evidence that you have.

Ready to begin. We have these hearing rooms for only a limited time. Please help me make sure that everyone can speak and be heard at the hearings by arriving on time and using the time effectively. If you do not get a chance to speak, please come back to a later hearing or submit your comments in writing. I encourage you to share your comments with the Ratepayer Advocate.

We are no ready to proceed. Please remember that ringing and use of cellphones, pagers, and other sound producing electronic devices is very distracting; and I must request you refrain from the use in this room during this hearing.

Are the companies ready to present their case? Do you wish to make an opening statement?

OPENING STATEMENT BY THE APPLICANT

MR. BAKER: Yes, we do.

Good afternoon, Mr. Nuru and counsel and staff. My name is Mike Baker. I am with the law firm Arnold & Porter in San Francisco. And we represent the Applicants, Recology, Sunset Scavenger, Recology Golden Gate, and Recology San Francisco.
Let me also introduce who is with me today: My colleague Gabriel White, who will be examining some of the witnesses; and two company representatives who will be among our principal witnesses, Jon Braslaw, who's assistant group manager for Recology San Francisco operations and who is second in command to San Francisco group manager, John Legnitto, who we're very pleased is with us today as well. And another principal witness will be John Glaub, who's seated behind me, who's director of administration and facilities for the San Francisco operations.

On behalf of Recology, we appreciate the opportunity to be here today to talk about Recology's collection and recycling programs in San Francisco. I'm going to spend the next 15 minutes or so providing an overview of the rate increase that Recology seeks in order to sustain these programs and to provide new programs and services that Recology and the City have jointly developed.

This application is presented against the backdrop of two important initiatives taken over the last several years by the City's Board of Supervisors. The first of these initiatives occurred in 2002 when the Board adopted a resolution committing the City to achieve 75-percent diversion by the year 2010 and
setting a further ambitious goal of eventual zero waste. The City exceeded the 2010 goal and last year announced that diversion had reached 80 percent, a remarkable achievement. And Recology, City officials, City residents, and businesses all deserve praise for that.

The second Board of Supervisors initiative that has a bearing here took place in October of 2009, when the City's mandatory recycling ordinance took effect, one that is the strongest in the nation. Both Board initiatives are important drivers for this rate application.

With regard to zero waste, the application includes new programs to continue to push the City forward toward its zero waste goals. You will hear about a pilot program to recover more materials for the black bins. You'll hear about new incentive discount plans to encourage more recycling. You'll hear about a possible property purchase for a new zero waste facility. Zero waste is an important driver in these hearings, not only because of the related programs but also because of the expenditures required to move closer to zero waste; that is the expenditures required to effectively separate and process recyclable and compostable material.

With regard to the second Board of Supervisors
initiative that I mentioned, mandatory recycling, you will hear through the testimony how residential and business customers are in fact recycling and composting more. Greater diversion means less trash to the landfill, which is obviously a good thing.

But more diversion also encourages customers, quite properly, to migrate to smaller and less expensive bins. The current residential pricing system is based solely on the black bin. Therefore, migration to the smaller and less expensive black bins has meant reduced revenue to the companies over the past few years. Revenue has also been negatively impacted by the economic downturn that began in the fall of 2008. And you will hear testimony and see some charts that we prepared that show how both mandatory recycling and the economic downturn have impacted the companies' revenues, making these developments over the past few years rate drivers as well.

Which brings us to the current rate application. Recology's last rate application was filed seven years ago, in 2006. At that time the Director and the Rate Board put in place rates that applied for five years. During that five-year period and since then up to today, Recology's expenses have risen, but its revenues have not, the reason being, as I mentioned,
less trash going into the black bins due to mandatory recycling and the economic downturn. So a significant portion of Recology's rate increase is to bring rates back in line with expenses.

Over the last few years the usual matching of expenses and rate revenues that's part of this process has gotten out of kilter and this application is in part designed to correct that imbalance.

It's also important to keep in mind that the last rate increase took effect in July of 2010, which was the beginning of the fifth and last year of the five-year rate cycle. Therefore, rates have not changed at all for the past three years. And during this period, as I mentioned, expenses have continued to rise, in part, to handle the greater volume of recyclables and greenwaste that the mandatory recycling ordinance encourages. No increase in rates for the last three years is a further driver for the rate increase Recology now seeks.

As Mr. Nuru mentioned, Recology seeks a rate increase that averages 21.51 percent per customer. For a typical single-family residence, the increase would be from the current rate of $27.91 a month to $34.51 a month, a monthly increase of $6.60.

Recology calculates the residential rates it
is requesting the same way it has done in the past; that is, it projects its collection expenses for the next year and compares those expenses to the revenue it expects to collect from sources other than residential customers, principally revenue from commercial customers and from the sale of recycled commodities.

The net costs that remain, plus the operating ratio, the OR, together establish the amount of revenue needed from residential customers to cover allowable collection expenses. Recology seeks no change in the OR or the profit margin approved in the last rate hearings, so the focus here will be as in the past on Recology's proposed San Francisco expenses and its projected revenue from sources other than residential ratepayers. And as we know, Recology has presented the City with detailed schedules and back-up that have been the subject of the workshops and have been scrutinized over the last few months. And those will be the subject of testimony in the days to come.

Now, apart from the numbers that make up and support a rate increase, this application has two policy objectives. The first, as I've mentioned, is to continue the development of programs aimed at furthering the City's progress towards zero waste. The second is to introduce a new rate-making structure to begin
charging customers in a way that does not rely solely on
the black bins. The current pricing structure based on
the black bins only is no longer sustainable as
customers continue to recycle more and use the black
bins less.

Therefore, you will hear about Recology's
proposal to reduce the price of the black bin but add
for the first time a base charge per residential
customer and a charge for each of the blue and green
bins.

For apartment customers, Recology is proposing
a volume-based discounting system similar to the one
that is now used for commercial customers that was
introduced successfully in 2006. These discount
formulas are designed to encourage and reward recycling
and composting. You'll hear how the new pricing
structure will work and see how it will affect different
types of single-family residents and apartment
customers.

Unlike Recology's past two rate applications,
which were for five years each, this one is for one year
only. The reason is that Recology anticipates filing a
new rate application once plans for new zero-waste
facilities are further developed. In the meantime
Recology requests that a COLA mechanism be approved to
allow for rate adjustments in subsequent years until such time as a new rate application is filed. The COLA mechanism Recology proposes is similar to the one approved by the Director and the Rate Board in 2006, with one refinement to more accurately account for healthcare costs.

So the Recology companies welcome the scrutiny that is an important part of this process. And as you will hear, the company and its employees are enthusiastic about the many programs that Recology offers, programs that were listed over two, three pages in the narrative that accompanied the application. And these programs are ones that Recology offers with the City's support. And you'll hear about how these programs benefit the City, its residents, and the environment. To sustain these programs and to develop more, Recology now seeks this rate adjustment, the first one in three years.

So with that, I'll step down and let you hear from the people who run the programs and who have done the number-crunching and have prepared the analyses that you will hear about. Thank you very much.

Shall we call our first witness then?

DIRECTOR NURU: Yes, you may call your first witness.
And I would ask that the clerk swear in your witness.

MR. BAKER: So our first witness is Jon Braslaw. Where will the witness be seated? Right here?

DPW CLERK: Good afternoon, sir. Please raise your right hand.

Do you solemnly swear that the testimony you're about to give today is the truth to the best of your knowledge?

MR. BRASLAW: I do.

DPW CLERK: Thank you.

JON BRASLAW,

Having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BAKER:

Q. Mr. Braslaw, would you state your full name, please.

A. Jon Braslaw.

Q. What is your position with the company?

A. I am the assistant group manager for San Francisco for Recology.

Q. And what are your responsibilities in that position?

A. I'm responsible for all of the administrative activities in the San Francisco region and I work as a
support to John Legnitto, our group manager.

Q. Are you familiar with the rate application that Recology has submitted that we're talking about here today?

A. I am.

Q. And you played a role in the preparation of that?

A. I did. I was primarily responsible for the development of the application and coordination of the team involved in putting it together.

Q. Can you summarize for us the sequence of events that has proceeded the filing of the application?

A. The companies filed a notice -- a letter of notice of application -- in September of 2012. We filed a draft application in December of 2012. And then, based on comments, input, suggestions from the City, from the public, we filed the final application on March 14th.

Q. And could you look please at Exhibit 1 in your binder there. Is Exhibit 1 the rate application that was filed?

A. It is.

MR. BAKER: Let me just ask a housekeeping matter as to how you'd like to handle exhibits. Should we mark it for identification, like in court, and move
their admission? Or would you like to do it in some other way?

MR. OWEN: I think if you'd simply state that you're moving a particular document into the record. For those that we don't already have at the dais, hand it to the clerk to hand it to me. And then I'll hand it to the reporter to actually be marked.

MR. BAKER: All right. So I move the admission of -- pardon me.

MR. LEGG: And assign a number.

MR. OWEN: Yes.

MR. BAKER: So then I move the admission of Exhibit 1.

MR. OWEN: All right. We will mark this document as Exhibit 1 and receive it in evidence. It's a document of approximately 85 sheets. And the top sheet appears to be a transmittal letter dated March 14, 2013, from Recology to Ms. Naomi Kelly, City administrator.

(The document referred to was marked and received into evidence as Exhibit 1.)

BY MR. BAKER:

Q. Mr. Braslaw, can you summarize for us what the application consists of, by reference to the tabs
that appear.

A. The application consists of a cover letter, a narrative summary which describes the programs that the companies are proposing along with some information about cost elements, and a reconciliation of the reasons for the increase. It's got then a set of detailed expense and revenue schedules for Sunset Scavenger and Golden Gate Disposal and then a second set of schedules for Recology San Francisco. Finally, it's got an appendix, which is modifications to the standardized format as required by the application process by the ordinance.

Q. So the detailed schedules that relate to Recology Sunset Scavenger and Recology Golden Gate are behind the tab that says "RSS/RGG"?

A. Correct.

Q. And the detailed schedules that relate to Recology San Francisco are behind the tab "RSF"?

A. Correct.

Q. Since March 14th, 2013, when this application was submitted, are there any modifications to the application?

A. We have made some minor modifications to the application, primarily to clarify certain things that were contained within the application.
Q. Could you take a look at Exhibit 2, please. What is Exhibit 2?
   A. Exhibit 2 is a list of changes that we're proposing to include in the application to the application.

Q. And what's Exhibit 3?
   A. Exhibit 3 is a revision to the narrative summary, which is one of the items that's listed on the list on Exhibit 2. Actually, it's three of the items. Excuse me.

Q. So Exhibit 3 is a revision of the narrative summary that is part of Exhibit 1 to show the changes?
   A. Correct.

Q. Can you tell us where the changes are in Exhibit 3, the narrative summary?
   A. The first change is on page 13 in the zero waste incentives section. It was -- actually, the change was the elimination of a sentence that was included in the original application discussing where the first tier would be set in subsequent years. That sentence was eliminated, as it really wasn't applicable to the way that those incentives are intended to be set.

Q. So it's the sentence that says, "First, tier targets in subsequent years will be based on expected changes in baseline tonnage." That sentence has been
deleted?
   A. Correct.

Q. Any other changes in the narrative summary?
   A. There are two additional changes, the first on page 17. Item 4 under breakdown of revenue increase, it reads, "Additional funding of City departments and assumption of abandoned material collection program increases required revenues by 1.8 percent." In the revision it is 3.2 percent. Actually, that was an error in the original submission. The correct number is 3.2 percent.

Q. Any other changes to the narrative?
   A. And then finally, on page 18, item 6, which is the decrease in other expenses, that should be 2.4 service, as opposed to 2.3. That was just a rounding difference.

Q. And that change has been made in Exhibit 3?
   A. Correct.

Q. Let me move the admission of Exhibit 2 and Exhibit 3, please.

MR. OWEN: We will mark the first document as Exhibit 2 and receive it into evidence. It's a single sheet with the title "Post-Filing Changes to Final Application."

We will mark the second document as Exhibit
No. 3 and receive it into evidence. It is a 20-sheet document approximately and bears the title "2013 Rate Application Narrative Summary, March 14, 2013."

(The documents referred to were marked and received into evidence as Exhibits 2 and 3.)

BY MR. BAKER:

Q. Now, Mr. Braslaw, could you turn to Exhibit 4.

A. Yes.

Q. What is Exhibit 4?

A. Exhibit 4 is a copy of Schedule B-1, Schedule B-2, and Schedule B for the Recology Sunset, Recology Golden Gate application and the Contingent Schedules 1 and 2 associated with that.

Q. So does Exhibit 4 consist of schedules from the rate application, Exhibit 1, and showing the changes that have been made since the application was submitted?

A. That's correct. The first change on Exhibit B-1 is actually the elimination of something that really no longer is applicable.

Q. And what was that?

A. That was -- there was a single-can rate that was included on Schedule B-1. But actually, in fact, the companies are proposing to calculate rates in a different manner and that rate really was no longer
applicable. We submitted the change for clarification.

Q. And what about change to Schedule B-2?
A. Likewise, the change for Schedule B-2 was submitted for clarification. It now includes the calculation of a typical monthly charge for a typical residential customer.

Q. And what about the change to Schedule B of Contingent Schedule 1?
A. The change to Schedule B of Contingent Schedule 1 and Schedule 2 are both similar to the change to B-1. We eliminated the single-can rate that was no longer applicable.

Q. Do any of the changes reflected in Exhibit 4 cause the requested rate increase to change at all?
A. No. They're for clarification purposes only.

MR. BAKER: I move the admission of Exhibit 4, please.

MR. OWEN: We will mark the document as Exhibit 4 and receive it into evidence. The exhibit is a four-sheet document. The top sheet is labeled "Recology Sunset Scavenger/Recology Golden Gate Rate Application, Schedule B-1, Rate Calculations Total Revenues."

(The document referred to was marked and received into evidence)
Q. Let's now turn to the rate application itself and what the components of the requested rate increase are. Let me ask you look at Exhibit 5, please.

Is Exhibit 5 a chart that depicts the breakdown of the rate increase that is set forth in the narrative of the application itself?

A. That's correct, as corrected.

Q. And am I right that the narrative portion of the narrative that is depicted in this slide is on page 17 of the application?

A. Correct.

Q. So at the bottom we see 21.51 percent. That is the average-per-customer rate increase that's sought; is that right?

A. Correct.

Q. Let's look at the first item here, collection revenue shortfall. And what does the 16.1 percent represent?

A. That represents the amount of revenue differential between what's needed to support the expenses and all the programs and what was approved in the last rate, basically.

Q. So 16.1 percent -- 16.1 is 16.1 percent of the
total of 21.5. If we add all these numbers up together, we'll come up with 21.51?

A. That's correct.

Q. All right. Now, we're going to come back to the collection revenue shortfall in a minute and spend more time on that. But let's continue with the summary. What is the second item, recycling revenue shortfall?

A. That's the difference between the amount of recycling revenue that is included in the application and what was approved in the last rate. The percentage increases are measured against what was approved in the last cycle and therefore what we're kind of moving against today.

Q. So in coming up with your -- with the rate application, putting this chart aside for a minute, describe the process that is used. In other words, the focus on expenditures, revenues, et cetera, in order to determine how much additional revenue is needed.

A. The process really is a ground-up process which starts with the expenses. So the company goes out, looks at what programs are in place, what programs that we're anticipating operating, and calculating the expenses related to those programs.

We then look at the revenue that is going to
be generated from the current rates in the context of those programs and the customers that are then existing to determine the base revenue. The difference essentially is -- turns into the rate increase.

So what we look at is building up the expenses, coming up with the revenue requirement, and then measuring that revenue requirement against current revenue. And the difference between those two numbers is the requested rate increase.

Q. What role does the revenue received from commercial customers play in that analysis?

A. It's part of the base revenue, so it's part of what offsets the costs of providing the service, so the remainder is what you need to collect from the residential and apartment customers.

Q. And what role does the revenue that you receive from the sale of commodities play in this analysis?

A. That likewise is used to offset costs. The sale of commodities are at Recology San Francisco. So they're used to offset the tipping fee that's charged for materials that the collection companies bring to the processor to be processed.

Q. So going back to Exhibit 5, in talking about the recycling revenue shortfall, you mentioned that you
had compared your projections for that number with what
had happened in the past rate process. Did I get that
right?
A. That's correct.
Q. Can you explain why you did that.
A. Because the last rate was approved in 2011,
especially that would be the revenue base that we would
use to measure whatever changes were occurring in the
current rate application. So we use 2011 essentially as
a base to kind of identify the areas that are driving
the need for a rate increase. And recycling -- a
differential in recycling revenue was one of those
areas.
Q. So the rate hearing was in 2006. Why did you
mention 2011?
A. 2011 was the fifth year of the last rate
cycle. So those rates were actually set in 2006. They
were set for the five-year period, 2011 rate year being
the fifth year of that cycle.
Q. So part of your process that you did this time
was to project recycling revenue for Rate Year 2014 and
compare it to what had been assumed back in 2006 for the
year 2011? Did I get that right?
A. That's correct.
Q. We will also spend some more time talking
about that, but let's continue now in this Exhibit 5.

Anticipated migration, 1.6. What does that refer to?

A. That refers to the movement that we see with our customers from black-bin service to more blue and green service, basically moving from trash service to more diversion services. Because those services are provided at a greater discount, that basically reduces the amount of revenue that we receive. Based on our historical experience, we believe that, even though we apply for a certain amount of revenue, we won't receive all of that because people will change their behavior. It's part of the underlying motivation for putting together the application and proposing the structures that we have is to motivate people to change their behavior. This is an estimate of what we believe to be the revenue loss that will result from that change.

Q. This is revenue loss during the next rate year?

A. Correct, during Rate Year 2014. All of these estimates that you see there are related to Rate Year 2014.

Q. Does this assumption regarding anticipated migration apply to all your customers across the board or only some of your customers?
A. It actually only applies to the apartment sector and the commercial sector. So even though we have encouraged residential customers to migrate to smaller cans and we've been providing outreach to explain what benefit they'll get, we have not included any migration assumption related to residential customers in the application. We have included apartment migration and commercial migration.

Q. If you had assumed some level of migration to smaller black bins by residential customers, would that have caused your rate application to seek a higher increase or a lower increase?

A. It would --

Q. Not a "lower increase." Would it cause you to request rates to go up or down?

A. It would have changed -- it would have increased the percentage by which we were requesting the rates to go up by. It would make the increase go higher, depending on whatever assumption was used to determine the magnitude of migration.

Q. And why is it that the companies in this case chose not to assume any migration by residential customers, even though you're encouraging it?

A. There were a couple of reasons, the first of which is that the companies recognize that there's some
risk and we believe that there will be some migration,
that we have a strong motivation to move forward toward
zero waste. And we wanted to put this program in place.
It will encourage our customers to be able to basically
right-size their service. We will get a benefit
because, as people do right-size their service and they
reduce the amount of material that goes into the black
bins, then we would be able potentially to achieve
certain diversion goals -- zero-waste goals -- that are
built into the application and into the process.

Q. Let's move to the next item on this list, "3.2
of the 21.51 percent rate request is related to City
departments and abandoned material funding."

What does that refer to?

A. That refers to some components of the
application included to help fund City departments
related to litter control programs, related to
regulatory activities, and also for the assumption of
the abandoned-materials collection program. The City
requested that we analyze and put together a proposal
related to that program. Those things all together are
included in the 3.2 percent.

Q. Okay. We will hear more about the
abandoned-material program later. But can you just
describe that a little bit more? This is a function
that the City was performing and the City has asked Recology to take it on; is that right?

A. That's correct. They've asked us to assume most of the responsibility. There's still a component that would remain with the City. That would be in response to calls to the City's 311 system or the identification of abandoned waste in the regular operation of our service. And it would be collecting those materials and then sorting for diversion and disposal of whatever materials need to be disposed of.

Q. And there is a cost related to that additional service. And that's what's in part referred to here?

A. That's correct.

Q. So then there's an item, "employee benefit cost savings." What does that refer to?

A. Again, we're measuring against the estimated costs. In 2011 there are a couple of areas where there's some benefit cost savings. One was in workers comp. In the original application in 2006 and in the approved rates, the workers comp costs was actually in excess of what we are projecting for 2014. So there was a savings there.

In addition, there's a savings related to post-retirement medical benefit that was adjusted as part of the last cycle of negotiations with the union.
and it's part of our current collective bargaining agreement that we were able to enjoy some cost savings that is reflected back into the application.

Q. So these changes have actually caused the amount of the requested increase to go down?
A. That's correct.

Q. Then there's the last item on here, "other decreased expenses," 2.4 percent. What does that refer to?
A. Right. That's a combination of other things that are lower than where they were projected to be as of the last rate cycle. So, again, a combination of things. There's some professional services. There is some allocation changes. There's, again, several categories that were actually lower than where they were in the last cycle.

Q. So this is also an item that has caused the amount of the requested increase to be less than it otherwise would be; is that true?
A. That's correct.

Q. Let's go back up to the first item, "collection revenue shortfall." And talk about how -- Let me move admission of Exhibit 5, please.

MR. OWEN: We will mark the document as Exhibit 5 and enter it into evidence. The document is a
single sheet entitled "Components of Rate Increase."

(The document referred to was marked and received into evidence as Exhibit 5.)

BY MR. BAKER:

Q. This looks like a complicated document. It is a little complicated, but we're going to use it as a tool to talk about some of the other items we want to talk about.

The application that Recology submitted for a rate increase in 2006 was for how many years?

A. It was for a five-year period.

Q. So in that application did Recology include projections for revenue and expenses for each of those five years?

A. Yes.

Q. And the rates that were ordered by the Director and the Rate Board were different for each of those five-year periods, reflecting the expenses and revenue that had been presented; is that true?

A. That's correct.

Q. Now, the five years would have been for Rate Years 2007, 2008, 2009, 2010, and 2011; am I right?

A. That's correct.

Q. So let's look at the first line of this
document, which says, "Revenue projected in 2006 rate application before COLA." So under Rate Year 2009, the number 207 appears; what does that represent?

A. That represents the revenue that was actually approved in the 2006 rate schedule for Rate Year 2009.

Q. When you say "the revenue that was approved," what does that mean exactly?

A. The rate application covered revenues for each of the five-year period. And then during the process we evaluated those projections along with other elements of the application. And the Director and ultimately the Rate Board approved those revenues as part of the final rate. So they were used to calculate the final rates that were approved in 2006.

Q. Did that mean that you were guaranteed to receive that level of revenue in each of those future years?

A. No. They were projected in those future years.

Q. So the numbers that appear next to it, Rate Year 2010 and 2011, similarly, those were the revenue numbers that were projected for each of those years in the rate order issued in 2006; is that right?

A. That's correct.

Q. And these are millions, right?
A. Yes.

Q. Now, the 2006 rate order also included a COLA mechanism; is that right?

A. That's correct.

Q. And what is a COLA mechanism?

A. COLA is cost-of-living adjustment. It's a mechanism to reflect changes primarily related to inflationary increases.

Q. And did the rate order include a formula for calculating COLA on a yearly basis?

A. It did.

Q. And give us a brief summary of what that formula was.

A. The formula included various components that were designed to reflect anticipated changes in different categories of expenses.

As an example, labor had a certain index. It grew at a certain rate. Certain costs were increased by the Consumer Price Index. Other costs were increased by the Producer Price Index. Certain costs had zero increase because they were fixed at the time that they were put in place; and so they weren't expected to increase with inflation.

Q. So again looking at the projected revenue number, the $207 million, 211, 250 million, am I right
that if we were to look at Schedule B-1 of the 2006 rate
application we would see those number?

   A. That's correct.
   
   Q. And there's a footnote there that makes
reference to that.

   Now, the COLA adjustment, it says, "7.5
percent in Rate Year 2009." What does that represent?

   A. That represents the cumulative adjustment from
Rate Years 2008 and 2009. This is the cumulative COLA.

   Q. What was the COLA adjustment in Rate Year
2008?

   A. In Rate Year 2008 it was 2.99.
   
   Q. Actually, that's reflected in Footnote 2, isn't it?

   A. I should be looking at that.

   Q. So below the 7.5 percent is the number
222 million. What does that represent?

   A. That represents 1.075 percent of 207.

   Q. And --

   A. So it just represents adjusting the revenue to
grow it by the amount of the cumulative COLA that you
see in the second line.

   Q. So in other words, 222 million represents the
revenue that was projected to be received in Rate Year
2009 adjusted for the COLA that was applied?
Q. And that's been true for the next numbers as -- 229 million and 243 million for those years?

A. That's correct.

Q. Now, the next item is actual revenues from collection operations, 220 million. What does that represent?

A. That represents the actual revenues that we received in Rate Year 2009 stated on the same basis as the 2006 rate application.

Q. So in other words, the projection adjusted for COLA is 222 million. You came in at 220 million, pretty close.

A. That is correct.

Q. Now, the footnote here refers to Schedule F-1 of the current rate application. If we turn to Schedule F-1, will we see that exact number of 220 million for Rate Year 2009?

A. We will not see the exact number. The rate application changed slightly in form. And so some of the dollars that are in the 2006 application were basically in a different place in the current application so we stated them on the same basis for consistency.

Q. If we went to Schedule F-1 of the 2013
application, the revenue shown for Rate Year 2009 would be what?

A. For 2009, it would be 223.

Q. 223. So there's a $3 million difference there?

A. Correct.

Q. And if you look across the revenue from collection operations in the subsequent years, 216 million, 223 million, 217 million, 216 million are the numbers that appear on Schedule F-1, approximately 3 million higher than each of those?

A. Three to three and a half million. And they're pretty consistent through those years.

Q. So when you -- then the number below the last row here is revenue shortfall versus 2006 projections. What does that depict?

A. So that depicts the difference between what was projected in the 2006 rate order adjusted for COLA against what we actually received. So the two is actually a minus two, because our actual revenues were $2 million less than the revenues that were approved, adjusted for COLA.

Q. And then what about in the subsequent years?

A. It's calculated the same way. So in that first year, as you stated, we were pretty close. Then
$2 million. In Rate Year 2010 our actual revenues were
about $13 million less than what was projected. And in
Rate Year '11, it's about $20 million less.

Q. And it looks like revenue during this entire
period Rate Year 2009 through -- well, let me first say
Rate Year '13, we're not quite finished with that one
yet, are we?

A. Correct.

Q. That will end on June 30 of this year?

A. Correct.

Q. So is the number projected revenue for Rate
Year '13 of 216 million; is that an educated projection?

A. It is. And if anything, it may be slightly
high. We may come in slightly below that.

Q. So your actual revenues from collection
operations, this row right here, has been fairly flat
for the last five years; is that a fair statement?

A. That's correct.

Q. And to what do you attribute that?

A. We think that the revenue -- we have seen some
degradation based on migration and based on changes in
economic activity, but that's been offset in part by
recycling prices that have helped kind of stabilize the
overall revenue.

Q. Have you obtained any data from your
operations that give any indications about migration?

    A. I have.

    Q. What do you have in that area?

    A. Let's see. In migration I looked at over the
last few years and in fact the percentages of materials
that we are collecting have changed pretty considerably.
When I look back to 2006, so kind of take a longer look
than this; but from 2009 the trend is accelerated. We
have moved from about 70-percent trash to the total
collection to about 51 percent. Trash has gone down
cumulatively in the last six years above 13 percent. So
we've seen the migration in that sector.

    The commercial sector is, in fact, more
accelerated. And there the same cumulative adjustment
is about 23 percent. And what we saw in the commercial
sector is that the reduction in the amount of trash
jumped from again the 9-percent number over three years
to 16. So we saw definitely a significant acceleration
in migration during that time.

    Q. Are you familiar with the mandatory recycling
ordinance in San Francisco?

    A. I am.

    Q. When did that take effect?

    A. That took effect in October 2009.

    Q. Has Recology seen any impacts from the
mandatory recycling ordinance?

A. We have. As I mentioned, we've seen an acceleration of the move from black-bin and black-stream service to more of the recycling and composting service. We saw an acceleration definitely in the apartment sector and also with restaurants and some of the other commercial sectors.

Q. Has Recology seen any impacts from the economic downturn?

A. We have. And as it shows on the chart, the downturn started really in October of 2008 and then mandatory came in a year later and we've seen the effects basically of both of those things. So initially we saw the impacts of the economic downturn in Rate Year '10. And early '11 that started to stabilize, but we saw some continued impacts from the move to greater recycling and composting services.

Q. Why is it that the mandatory recycling ordinance and the economic downturn impacted your revenues?

A. The economic downturn impacted the revenues, because, as there was less activity -- economic activity -- people downsized their service. We saw that people really went -- they moved towards minimizing their costs as they were working to maintain their
businesses through the recession. We've also seen from
the mandatory, again, movement, because as mandatory
went in we worked closely with the City on an
implementation and a compliance program. And as we've
done that, we have continued to roll-out recycling and
composting to additional residents and apartment
customers.

Q. In your analysis have you been able to
distinguish the impact from the mandatory recycling
ordinance, as opposed to the economic downturn?

A. We have not. And when we did our analysis,
those two things were so closely intertwined in the way
that we keep our records that it was really impossible
to separate those with any degree of accuracy. And any
separation would be an allocation process that could
vary very significantly, depending on the way you built
the assumptions.

Q. So going back to Exhibit 6 and looking at the
actual revenue numbers for the years we're looking at
here, am I right that revenues remained flat, even
though there was a rate increase that took effect in
Rate Year 2010 and another one that took year in Rate
Year 2011?

A. That is correct.

Q. Now, if we move over to the right-hand side of
the document, what does the number 265 represent?

A. 265 million. That is the total revenue requirement that's contained within the rate application based on all of the expenses that are included in the application and the operating ratio.

Q. Would we find the number 265 million in the application some place?

A. We would. It is --

Q. We should hope so, right?

A. I hope so.

It's on Schedule B-1, about the middle of the page.

Q. Then what does the number 218 represent?

A. 218 represents the revenue that we anticipate at current rates. So that's the revenue generated by all of the customers at the current rate that essentially is available today to support the programs in place and what we are proposing.

Q. And the difference between those two numbers is 47 million?

A. That's correct.

Q. What does that represent?

A. That represents the increase that the companies are requesting to support the programs as presented in the application.
Q. So how does the number 47 million get translated into what the companies are requesting by way of a rate increase?

A. That gets applied to the various sectors. Actually, first the 47, when you do the math, that represents 21.51 percent from the 218. So that's the math to get to the magnitude of the increase requested.

Q. Now, if your revenues had actually been what was projected back in 2006 for the last of the five years, namely 243 million, if your revenue today was 243 million instead of 216 million, would your request for rate increase be less?

A. Absolutely, it would be.

Q. And what would be the percentage if that were to have been the case?

A. It would be, I believe, under nine percent, about eight and a half percent. It would be the difference between the 243 and 65, so it would be 22 million over the 243.

MR. BAKER: I move the admission of Exhibit 6, Mr. Owen.

MR. OWEN: We will mark the document as Exhibit 6 and receive it into evidence. The document is a single sheet with the title "SF Collection Revenue Projections and Actuals, Rate Year 09 through Rate Year
14, Dollars in Millions."

(The document referred to was
marked and received into evidence
as Exhibit 6.)

MR. BAKER: Mr. Nuru, I'm going to turn to a
different subject now, which I'm happy to do, but I just
wanted to see whether you wanted to take a break at this
point or whether you wanted to proceed?

DIRECTOR NURU: I think we should proceed.
I'm planning for a break at 3:00 o'clock.

MR. BAKER: Thank you.

Q. Mr. Braslaw, does this application include any
changes in the rate-making structure for residential
customers?

A. It does.

Q. What is that change?

A. The change that we're proposing really brings
some pretty fundamental changes to the structure. As
you mentioned in your opening statement, that currently
the rate is based on the size of the black bin only. So
basically the revenues generated off that black-bin
service, as we've seen the success of the programs and
as we've seen migration and we just talked about the
impact on our revenue.

So we proposed a structure for residential
customers that starts to move away from that really and reflect where we are in the cycle of the programs and to reflect the success of the programs. The new structure includes a base charge, which would be applied per dwelling unit. It includes some small charges for recycling and composting bins; and then it includes a charge for the 32-gallon black bin.

Q. Let's turn to Exhibit 7 and use that as a way to illustrate the changes that are being proposed. Let's start with the sample at the top. You see Sample 1 there?

A. Yes.

Q. And what does Sample 1 show us?

A. Sample 1 represents a typical residential customer with three 32-gallon containers -- trash, recycling, and composting containers. So under the column that's entitled "current rate," you see that there's one number in that column near the trash line. And that's $27.91, the current -- basically, the current 32-gallon rate for a single 32-gallon customer.

Under the new rate the components that I mentioned, if you look, the trash rate has gone down from 27.91 to 25.51. That component of the rate has gone down.

But there are additional components -- the
recycling charge of $2, the composting charge of $2 and a base-unit charge of five dollars. The base-unit charge is intended to represent some of the fixed costs of the program. So that would be things like customer service, regulatory costs, et cetera. The total new rate would be $34.51 for this customer, this type of customer, for an increase of $6.60.

Q. So does this customer have an opportunity to change its service and thereby save money?

A. They do. The minimum service requirement for a residential single-family residential customer is 20 gallons. We currently offer a 20-gallon bin for trash service.

Q. So this customer could trade in their -- convert their --

A. They'd trade in their 32-gallon trash bin for a 20-gallon trash bin. They would be reducing their overall service by 12 gallons. But their new rate, as you can see in the column on the right under "new rate," would be 24.94. It would be a reduction of $2.97 from the current 27.91. So by moving to a smaller black bin, they'll be able to reduce their rate.

MR. BAKER: We move the admission of Exhibit 7, please.

MR. OWEN: We will mark the document as
Exhibit 7 and receive it into evidence. The document is a single sheet entitled "Residential Customer Downsized Black Bin."

(The document referred to was marked and received into evidence as Exhibit 7.)

BY MR. BAKER:

Q. Let's now look at an exhibit entitled "Down-sized Black Bin and Up-sized Blue Bin." What does Exhibit 8 shows?

A. Exhibit 8 is basically that same typical 32-gallon customer that's got three 32-gallon bins, but we want to demonstrate the impact of making changes to their service. If this customer moves to a 20-gallon trash bin but moves to a larger recycling bin, they now actually have 20 extra gallons of service. Because they've got a larger recycling bin, their new monthly rate is 26.94. It's still 97 cents, about a dollar, less than what they're paying today. So this customer, in fact, has more volume of service, can get more service, and can still see their rate go down from where it is today by moving from a 32-gallon trash bin to a 20-gallon trash bin.

MR. BAKER: So we move the admission of Exhibit 8, please.
MR. OWEN: We will mark the document as Exhibit 8 and receive it into evidence. The exhibit is a single-sheet document entitled "Residential Customer Down-sized Black Bin and Up-sized Blue Bin."

(The document referred to was marked and received into evidence as Exhibit 8.)

BY MR. BAKER:

Q. Moving now to Exhibit 9, what does Exhibit 9 show us?

A. Exhibit 9 is a residential customer. It's a three-unit-building. Residential customers are from one to five units. This is a customer that has three units. You see under base-unit charge the number three there. Again, their current rate is based on the volume of the trash that they -- the service that they receive, the $83.73, that's their current rate based on a 96-gallon trash container. Under the new proposed rate structure, again, the elements that we've discussed, their trash bill specifically goes down to $76.53. They have a $6 charge for a 96-gallon recycling container. They've got a $4 charge for a 64-gallon composting bin and they have a $15 base-unit charge. That's five dollars per unit times the three units. Their new total bill, $101.53. It's an increase of $17.80 from their current rate.
That increase is about 21 and a quarter percent. And I point out that it's lower than the 21.05 because the amount of the rate increase for any individual customer is going to be determined by their service configuration, the volume, the frequency, the size of the containers.

Q. So the exact percentage increase could vary some from customer to customer is your point?

A. That's correct.

Q. Still maintaining the overall average of 25.51 percent?

A. Correct.

Q. Now, could this person save any money by changing service?

A. Absolutely. You see in the blue box on the right this specific customer, by moving their trash service from a 96-gallon bin to a 64-gallon bin, it reduces their trash cost to 51.02. And still the other components remain, as we've discussed -- the $6 for recycling, $4 for composting, $15 for base-unit charges. The total -- new total is 76.02, a reduction of $7.71, or about 9 percent from their existing service.

MR. BAKER: Move the admission of Exhibit 9, please.

MR. OWEN: We'll mark the document as Exhibit
9 and receive it into evidence. The document is a single sheet entitled "Residential Customer One to Five Units, Down-sized Black Bins."

(The document referred to was marked and received into evidence as Exhibit 9.)

BY MR. BAKER:

Q. Let's move now to apartment customers. What does Exhibit 10 show us?

A. Exhibit 10 shows us calculated rate, the current rate, and the new rate for a typical apartment customer. There's some elements of the calculations that are a little bit more complicated than what we saw for the residential customers. That's because our proposal includes a different rate structure for the apartment segment and apartment customers. The structure is a discounted volumetric structure whereby the customer is charged for all their volume and they receive a discount based on the amount of diversion volume they have as a percentage of their total volume.

Q. So we'll walk through this in some detail, but is this a rate structure that you've previously used or something similar to this?

A. It is. It's similar to the commercial rate structure. The reason that we've proposed this rate
structure in the apartment segment is that apartment
customers have quite a bit of variability in terms of
their service. So based on the size of the buildings,
based on the level of diversion recycling and
composting, based on the constraints of service and
therefore changes in the frequency, all of those things
serve to create a lot of variability. We wanted to
propose a structure that we felt was more reflective of
that customer group and also provided a clear economic
incentive for them to move to greater diversion
services; and we believe that this structure is
reflective of those goals.

Q. So let's walk through this customer's current
bill of $167.46 a month. Tell us how that is
determined.

A. Basically that's determined based on the
amount of trash service. So the apartment customers
today are treated the same as residential customers. So
the bill -- the fee for service is based on the volume
of trash. So this customer could have two 96-gallon
recycling containers. They could have six and the bill
would be same as what you see here. So there's no
change for changes in the recycling and composting
today, but only -- it's really only driven by the volume
of trash service.
Q. So if this customer makes no changes in their service, how will their bill change?

A. Their bill will change -- first, we'll kind of work from the middle up and down. The base-unit charge again, consistent with what we are proposing in the residential side, is a base-unit charge for each dwelling unit. So that's six. You see $30. Say, $5 charge for each of the dwelling units. That covers the fixed costs of the system.

Then the next component is that for all of the volumetric service there would be a gross -- kind of a gross amount calculated related to that. So those dollars, the 153.06 and the 51.02, those are based on the size and quantity of containers. The base charge for each 32-gallon of service is consistent with the residential 32-gallon black-bin service. So it's basically calculated at 25.51 for 32 gallons. You can see under the composting line for a 64-gallon bin it's 51.02, which is two times the 25.51. So that's the gross volumetric charge. And then that volumetric charge is subject to a discount based on their diversion. And the way that's calculated is first a diversion percentage is calculated, which is the total volume of diversion service against the total volume of all services. That in this example is the 57 percent.
Q. So let's stop there just a second. Am I pointing next to the asterisk to the formula that tells you what the diversion percentage is?

A. That's correct.

Q. And it's a ratio?

A. Right.

Q. A fraction. And what's the enumerator of the fraction?

A. Diversion service, which is recycling and composting services.

Q. And in this particular example what's the number that would appear in the enumerator?

A. The number is 192 plus 64. I have to do the math. It would be 158.

Q. So that's two times ninety-six plus --

A. Two fifty-eight, excuse me.

Q. So that's two times --

A. Two times ninety-six plus one times sixty-four.

Q. And the total is what?

A. I believe it's 258. I don't know. Somebody can check my math.

Two-fifty-six. Thank you. Been away from accounting for too long.

Q. And then what's the denominator?
A. The denominator is 256 plus 192 -- hang on.

Q. You didn't know there was going to be math on this test.

A. Four-hundred-forty-eight.

Q. Four-hundred-forty-eight. Good.

So 256 divided by 448, hopefully, will be 57 percent?

A. I hope so.

Q. But yet the discount percentage is only 47 percent. So why is that?

A. That's correct. Because we've proposed to provide discounts that are equal to the diversion less 10 percent. And the reason that we proposed this part of the structure is that, because of mandatory recycling and composting and because the programs are already starting to become more mature, we believe that there's a minimum amount of recycling and composting that all customers are expected to do. That minimum amount we determine at this point is 10 percent isn't subject to the discount because, again, we believe that that's kind of an expectation of the customers. So anything in excess of that 10 percent we provide as a discount, there's an upper limit that we're proposing in the structure; and that would be a discount of 75 percent; and that would be based on diversion percentage of up to
Q. So looking at this particular example, the diversion discount is $167.86; is that right?
A. Correct.
Q. How was that number calculated?
A. That is 47 percent of the sum of the volumetric charges. 153.06 twice and the 51.02.
Q. Now, then there's an additional item here called "Cap Credit in Year 1." What does that refer to?
A. Cap credit in Year 1 is based on another element of the proposal. We propose, in order to allow the apartment customers time to get acclimated to the new structure and ultimately to migrate their service and really right-size their service, which we expect they'll do over time, that we've proposed a cap of 25 percent in the first year. So whatever the current bill -- the current fee charged by the customer, the new rate won't go up more than 25 percent during that first year. The $9.95 is the amount necessary to bring in this example, that customer's adjustment, down to 25 percent, 125 percent of the 167.46.
Q. So this customer, if they make no change in service, will see their rate go up from 167.46 to $209.33?
A. That's correct.
Q. Now, could this customer make changes in service in order to save money?

A. They could. Again, even though the new apartment structure has a volumetric charge associated with all volumes of service, that the recycling and composting services which result in diversion and discount percentages are significantly less than the cost of trash service. So this customer, by moving one of their 96-gallon trash containers to a recycling container, they've still got the same amount of volume.

So if you added up the first three numbers, it's equal to the first three numbers in the column to the left under "new rate." But their diversion discount is significantly greater because they've increased their diversion percentage and consequently their discount percentage.

Q. So the total for this customer, if they switch out a black bin for a blue bin, would be $140.71; is that --

A. Correct, which would be a decrease from where they are today.

Q. Last on this exhibit there's a note that says "Does not include premium surcharges, key, elevation, and, distance." What's that refer to?

A. That is correct. Many of the apartment
customers have what we call charges for premium services. If the companies go in, they use a key to gain access to the bins, then there's a charge related to that key. Those charges are not included in the example, but they're part of the cap. So the companies' proposal includes that cap of 25 percent in the first year. That includes a cap basically all-in for all charges, including those premium charges.

Q. Are key, elevation, and distance charges new in this application?

A. No they are not. They exist today.

MR. BAKER: I'll move the admission of Exhibit 10, please.

MR. OWEN: We will mark the document as Exhibit 10 and receive it into evidence. The document is a single sheet entitled "Apartment Customer Once-a-week Service, Trade in the Black Bin for a Blue Bin."

(The document referred to was marked and received into evidence as Exhibit 10.)

BY MR. BAKER:

Q. Let's look at our last example, which is Exhibit 11. What does this example show us?

A. This example shows us an apartment customer --
a significantly larger customer. Again, if we start in the middle with the base-unit charge you can see that there's 25 units. So this is a customer, fairly significant-sized building that's got some different characteristics. You can see in the third column under "Frequency" that this is a customer that in this example has service six days week. What that indicates is they don't have a lot of room and even though they've got a lot of units and they have a lot of service, the service is built on frequency, as opposed to built on the number of containers. So the rate is calculated the same way because volumetric charges are essentially the size of the container times the number -- of the number of containers and the number of times that it's serviced. Under the current rate, again it's calculated the same way. Based on the black-bin service, there's no separate charges for recycling or composting. And there's no base-unit charge. The total for this customer is $565.18.

Q. So what will happen to this customer under the new rate?

A. Under the new rate, they'll have a volumetric charge for all of the service and they then will -- those charges will be discounted by the diversion and discount percentage. You can see the percentage
calculated below in the orange. That's the result --
the $730 is the application of the 53-percent discount
to the volume charges. They're subject to the $125
charge, is the number of units times the base charge per
unit. And then they also would have a cap credit in
Year 1 of $65.97 to limit their increase to 25 percent
increased from the 565.18.

Q. Now, we saw earlier how customers like this
might be able to save money by switching a black bin for
a blue bin or a green bin. But if this customer does
not want to change the configuration of its bins can the
customer save any money by changing the frequency of
service?

A. Right. Again, the volumetric charge is based
on the size of the bins and the frequency of service.
So my moving the frequency from six times a week to five
times a week, they'll be able to reduce their bill. You
can see under the new calculations of $604.60, it's
above the current rate; but it's below -- it's certainly
below what they would otherwise be subject to and it's
below the 25-percent cap. You can see there's no line
in there under cap credit. That's because their
increase is, in fact, less than that and there's no need
to apply the cap. It looks like their increase is
probably about 10 percent.
MR. BAKER: I have no further questions of Mr. Braslaw at this time. He's available for cross-examination. We expect to bring him back later in the hearings to talk about some of the specific expense items, but we wanted to limit his testimony right now to this overview that we've provided. We will follow his testimony with some testimony from other witnesses regarding new programs and other overview issues; and then we will return later with Mr. Braslaw and others with regard to some specific expense items that may be of interest.

DIRECTOR NURU: Okay.

MR. OWEN: Before we release Mr. Braslaw, do you want to introduce Exhibit 11?

MR. BAKER: Yes, I do. Thank you for reminding me.

MR. OWEN: We will mark the document as Exhibit 11 and receive it into evidence. The document is a single sheet entitled "Apartment Customer Reduced Frequency of Service."

(The document referred to was marked and received into evidence as Exhibit 11.)

DIRECTOR NURU: Okay. Thank you.

So I think I'll recommend we now take a
15-minute break. And when we come back, we'll begin the
session by hearing from the witness, if that's okay with
everyone.

[Whereupon a break was taken from
2:45 p.m. to 3:00 p.m.]

DIRECTOR NURU: We will now hear from two City
witnesses on City costs. If the DPW clerk can swear in
the witnesses, thank you. If we begin that process. I
believe the Department of Environment first.

DPW CLERK: Good afternoon, sir. Please raise
your right hand.

Do you solemnly swear that the testimony
you're about to give today is the truth, to the best of
your knowledge?

THE WITNESS: I do.

DPW CLERK: Thank you.

MR. OWEN: Before we start, I just want to
remind everyone that if you're going to speak and
introduce exhibits, we're asking that you bring at least
five copies, if possible, so we can circulate them to
all the parties and everybody can follow along with the
proceedings.

My name is Tom Owen. I'm a deputy city
attorney advising the City in these proceedings.

The City's first witness will be David
Assmann.

DAVID ASSMANN,

Having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. OWEN:

Q. You've been sworn in, Mr. Assmann. Could you state your name for the record again and spell your last name.

A. David Assmann. Last name is spelled A-s-s-m-a-n-n.

Q. And your position?

A. I'm deputy director of the San Francisco Department of the Environment.

Q. And how long have you served in that position?

A. Since August of 2000.

Q. What are your general duties?

A. My general duties are I oversee a number of program areas within the department. I have some specific responsibilities in relationship to areas that are covered by the impound account and zero waste, toxics reduction, environmental justice, and greenbuilding.

Q. What is the impound account?

A. The impound account is a fund that is used to cover fees that are assessed at the landfill and to
cover specific City costs for the Department of Public Works and the Department of the Environment.

Q. How much money is included in the impound account under the application for the Department of the Environment?

A. $8,893,753.

Q. Do you happen to know approximately what the cost would be to the average individual ratepayer?

A. To the best of our calculations it amounts to seven cents a month per household.

Q. Thank you. At this point can you explain how the department would be using those funds and how the costs were calculated?

And you don't have to wait for me to ask questions.

A. Okay. The way we calculate a cost is based on an allocation that we developed for the last rate process, which is based on 62 percent of the funding is used for zero waste programs; 31 percent for toxics-reduction programs; 5 percent for greenbuilding programs; and 4 percent for environmental justice programs.

And I would like to introduce as an exhibit an overview of the impound account project areas for the Department of the Environment which outlines...
approximately 50 projects that are funded by the impound account. And this is a detailing of how we would spend the money in each of the different program areas. It was developed in conjunction with each of the program areas and following the guidelines in terms of percentages that we have been abiding by since 2005.

Q. Thank you. Do you have copies we can provide to the Applicant at this time and the Ratepayer Advocate?

A. I do. The Advocate was sent one yesterday. I've already sent this to the Ratepayer Advocate.

MR. OWEN: We will mark the document as Exhibit 12 and receive it into evidence. The document is approximately six sheets with the title "Impound Account Projects SF Environment 2013-2014."

(The document referred to was marked and received into evidence as Exhibit 12.)

BY MR. OWEN:

Q. You may proceed.

A. Well, I was not going to go through the entire list of projects that's in here, other than to say that the vast majority of them relate to project within zero waste in terms of implementing the mandatory recycling and composting ordinance, neighborhood composting
campaigns, curbside auditing, green apartments, commercial building outreach, material processing, construction and demolition debris, recycling, checkout bags, food-service ware, and a variety of projects for City government in addition to zero waste event auditing and outreach programs associated with all of those programs.

Under the toxics reduction program we have a number of programs aimed at reducing the amount of toxic materials that are produced and also programs to divert materials from landfill dealing with special wastes which are barred from landfill in California. Working on programs like drug take-back programs, healthy nail salons, green-cleaning programs, and toxic reduction programs for municipal agencies.

Q. Could you describe the approval process for expenditures from the impound account?

A. Okay. There are several sets of processes we go through to develop programs. First, we have a strategic planning process for the department that we'll go through and outline priority areas for each of our program areas.

Our second analysis of what we would do every fiscal year is, based on our budget process which is prepared internally, taken to our Commission. It goes
through a committee of our Commission, then goes through the full Commission. It is then submitted to the Mayor's budget office, runs through the Mayor's budget process. Then goes to the Board of Supervisors and it is run through the Board of Supervisors' budget process. So there are a number of steps in the way of developing a budget and a program plan each year.

We also have internal checks and balances in terms of approval processes for any expenditures that run through program managers and through the deputy director or the director to authorize any expenditures out of the impound account. We now annually audit the impound account. We have -- since 2010, I believe there's an analysis done every year of how impound-account funding is spent. We also track all our time through an online tracking system so that all our hours are logged to make sure that impound-account hours are properly allocated and accounted for. So we have a number of different programs to ensure that money is appropriately used.

Q. Is the size of allocation to the City departments in this rate application commensurate with the size of past rate applications?

A. Absolutely. We actually, in calculating the request, we used COLA to determine how much we should
ask for this time. It is strictly a COLA increase over
the last rate process.

Q. And to the best of your knowledge is this
allocation roughly proportional to what other
communities receive from franchise arrangements or --

A. It is roughly proportional. There are other
communities that receive more and some others that
receive less but, yes, on a rough basis, absolutely.

Q. Thank you. Turning to the special reserve
surcharge, can you explain basically what that is?

A. The special reserve charge was set up to deal
with unforeseen expenses between rate applications that
the companies may incur. And it was set up to have a
minimum of $15 million in it. It was funded by a
surcharge that fed into this fund and then withdrawals,
having gone through an approval process, would be taken
out of the fund to deal with unforeseen expenses. The
decision was made in the last rate process to
discontinue putting additional money into the special
reserve. We determined there was sufficient funding in
the special reserve to deal with any unforeseen
circumstances.

The special reserve is required to stay in
place until after the landfill agreement has ended.
And the Rate Board has up to five years to determine
disposition of that fund after the agreement has concluded.

Q. Is there anything else you'd like to add about either the impound account special reserve or any other part of the City's side of the rate application?

A. The only thing I'd like to add on the special reserve -- and it's not really related to special reserve. It's just that we are and have been going through a landfill search process and that at the termination of this landfill agreement we will have in place a new agreement. At this point -- and I ran the numbers again this morning -- we are projected to run out of capacity sometime in January of the 2016.

MR. OWEN: Thank you. You are excused.

DIRECTOR NURU: Thank you.

And we'll now call a City witness from the Department of Public Works.

MR. OWEN: The City's next witness is Mr. Douglas Legg.

DPW CLERK: Good afternoon. Please raise your right hand, sir.

Do you solemnly swear that the testimony that you're about to give today is the truth, to the best of your knowledge?

THE WITNESS: I do.
DPW CLERK: Thank you.

DOUGLAS LEGG,

Having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. OWEN:

Q. Could you please state your name again for the record, spelling your last name.

A. Douglas Legg, L-e-g-g.

Q. And what is your current position with the City?

A. I'm manager of finance, budget, and performance with the Department of Public Works.

Q. How long have you served in that position?

A. I have been in that position since 2004.

Q. What are your general duties?

A. I manage all of the department's budget activities, our grants from outside agencies, and management to make sure that our various bureaus and programs are staying within budget during the year. I also am responsible for our performance measurement systems and tracking how well we are doing at providing our services, tracking the volume of requests and services that we provided, and also looking at how we are serving different parts of the city.

Q. Do you have any specific duties in connection
with waste management and the refuse rate process?

A. Yes, I do. As part of our occasional -- the Department of Public Works' occasional responsibilities for setting refuse rates, I'm the primary staff person who is examining and leading a team of consultants examining the companies' refuse rate application this year. I had a similar experience in 2006.

And I also evaluate on an annual basis requests for the COLA adjustment based on the approved mechanism and make recommendations to the Director and the City Administrator on withdrawals from the special reserve account.

Q. You've heard Mr. Assmann's description of the impound account. Is there anything you'd add to that?

A. Well, in addition to the regulatory fees and the portion of the impound account that funds programs at the Department of Environment, since 2005 there have been impound account funds that have been allocated to the Department of Public Works for many of our costs related to the management of materials on city streets and sidewalks.

And so over the years the amount of money has been increased in that account. And as of the 2012 rate process we're currently receiving about $3.88 million to deal with these kind of refuse-related
services, including litter patrol, block sweeping, all kinds of sidewalk/street-sweeping activities, the collection of abandoned materials from the streets, as well as the cost of moving materials from -- instead of taking them and dumping them in a pit at our yard, back in 2004 we started transporting materials directly to the transfer station at Tunnel and Beatty. And that had a significant increase on our expenses.

I'd actually like to go on and just talk a little bit what is included in this rate application, because there are some new items. And to begin that process, I do have an exhibit I'd like to introduce, which is a memorandum titled DPW -- I'll let you read the title of that.

MR. OWEN: We'll mark the document as Exhibit 13 and receive it into evidence. The document is two sheets. It's a memorandum dated April 11, 2013, to Mohammed Nuru, Director, from Douglas Legg. "Subject: DPW funding included in Recology 2013 refuse rate application."

(The document referred to was marked and received into evidence as Exhibit 13.)

BY MR. OWEN:

Q. I think you can proceed now.
A. Okay. I'd like to briefly describe what's in this memorandum, because it does describe the full $5.72 million that DPW is requesting as part of this year's rate process. As I said, for some years we've been including in the rates recovering a portion of our expenses for collection and disposal of materials on City streets. Our total expenditures last year which is the last year where we have final figures, was about $20.7 million.

So the $3.88 million that we're requesting for those services that are described in the exhibit equal approximately 18, 19 percent of our total expenses in that category. And we do get other funding sources to pay the remaining 82 percent or so of the those costs, including funds from tobacco and cigarette litter fee that's collected. So there are a variety of sources that pay for our services; and the impound account is one of those, one of those funding sources.

In this application we are also proposing a couple of new expenses that we would like to be included as covered by the impound account. First, we are proposing to add an enhanced education compliance and outreach program to combat illegal dumping of refuse on city streets and public property.

Illegal dumping has turned into and is
becoming more and more of a problem in the city. And it is actually affecting neighborhoods in every part of the city. There are certain hotspots that we have where the problems are very, very bad -- in the Mission and the Bayview. But we're receiving literally thousands of calls a year. Because of this -- and we believe a lot of the problem is that residents, apartment dwellers, others do not have adequate refuse service. So we want to start really enforcing the law and making sure that people are disposing of their materials properly and not essentially creating a public nuisance which causes the need to collect a lot of this material.

The program is going include both outreach education efforts, but also the classifications that we are proposing to add to our budget this year are able to write citations -- and we have a public hearing process where we follow those citations through -- and nuisance ordinances where we can collect penalties. The ultimate goal is not to collect fines, though. The ultimate goal is to have people comply with City codes, making sure they're disposing of their materials in a proper way.

Secondly, we have added a total of $845,000 to the impound account this year because we need to
start a replacement programming for our public litter
cans on the streets. These are the litter cans that
are on corners throughout San Francisco near bus stops,
on commercial corridors. There are approximately 3,000
of those in the City. Those receptacles are getting
pretty old and damaged. They're subject to a lot of
vandalism. And we're also seeing a lot of scavenging
from those receptacles were people are actually tearing
off doors, breaking doors, removing liners, and
stealing liners. So we are proposing to start a
program of replacing them with more attractive cans,
but cans that are also more difficult to break into and
that have more functional recycling tops on them, which
we believe lead to less digging through the garbage and
spreading litter around on the streets.

That amount of money is enough to install 450
receptacles each year. And, assuming about 10 percent
of costs would go toward installation, we would plan to
replace about that many each year as those funds are
requested.

There is also $33,000 a year that's collected
that is intended to pay for DPW's expenses in rate
processes like this one. We are anticipating another
major rate application in three years. And so we would
collect that $33,000 a year. And at the time of rate
process that we're anticipating in three years, we would have a hundred thousand dollars that would pay for our expert consultants and expert staff time that we need to bring on board.

The memo also has some discussion -- and I won't go into it here -- about the shifting of abandoned materials collection from DPW to Recology. And they have included in their costs and Mr. Braslaw talked about those expenses in his presentation. We believe that by having Recology take over that service they will have a dedicated group of people. They also are going to be much better at separating waste. We collect over 10,000 mattresses a year from City streets. Almost all of those go into our packer trucks and get sent to the landfill. Recology is going to be using a different configuration for collection of those materials and so is going to be able to divert quite a bit more from landfill and it will really help our zero waste goals.

I'd also like to talk a little bit about an issue that's been raised in the three rate processes that I've been a part of in 2006, 2010, and 2012. And that is the issue of including any of these costs for City services in the impound account and as part of the rate base. This issue of DPW's refuse-related issues
has been raised and addressed in several previous rate
hearings. And at the direction of the Rate Board and
the 2012 proceedings we are devoted entirely to this
issue.

At that time DPW presented evidence on the
cost of services DPW performs, review of what other
cities include in their refuse rate base, as well as an
analysis of the 311 service calls for abandoned
materials which we believe showed that the collection
of materials was coming from areas with high
concentrations of both residential apartment and
commercial activities.

The independent hearing officer from the
Department of Public Health in 2012 heard the evidence
and affirmed the inclusion of these DPW costs in the
rate base. And upon appeal the Rate Board again
approved the use of the impound account funds for these
DPW services.

For the sake of brevity, I'd like to
introduce several documents from the 2012 rate
proceedings into the record for this hearing. I'd like
to do that now.

First, I have the hearing officer's report on
the 2012 refuse rate application.

MR. OWEN: Exhibit 14 in evidence will be a
MR. LEGG: Next I have a report from consultants HDR titled "Municipal Refuse Collection Rates Comparative Analysis, Dated April 20, 2012." This report includes information on several comparable cities and enumerated the range of services and programmatic activities that are included in the refuse rates of those cities.

MR. OWEN: That will be Exhibit 15 in evidence. It's approximately six to eight sheets bearing the title "San Francisco Department of Public Works Municipal Refuse Collection Rates Comparative Analysis, Dated April 20, 2012."

MR. LEGG: Next is the staff presentation from the March 22, 2012, workshop. And it includes characterization of DPW-collected-refuse jurisdictions and other jurisdictions that include City services in their rate base.
MR. OWEN: We will mark the document Exhibit 16 and receive it into evidence. The document is two sheets bearing the title "Public Workshops San Francisco Residential Refuse Rate Allocation of Refuse Rates Surcharge."

(The document referred to was marked and received into evidence as Exhibit 16.)

MR. LEGG: And finally I'd like to submit DPW 311 call data, which tabulates reports of abandoned materials and plots the locations of those calls on the City base map with City zoning types such as residential, commercial, mixed-use, et cetera.

MR. OWEN: We will mark the document as Exhibit 17 and receive it into evidence. The document is two sheets bearing the title "2012 Refuse Rate Hearing April 23rd, 2012, San Francisco Department of Public Works, Bulky Item Collection Requests."

(The document referred to was marked and received into evidence as Exhibit 17.)

MR. LEGG: That concludes my testimony. At this time I would like to suggest that Mr. Assmann come back. He's not going to be with us, unfortunately, next week because of changes in the
schedule of the hearings. And so we would like, if possible, to have the Ratepayer Advocate do some cross-examination of Mr. Assmann.

And then I'll be available for cross-examination next week. But hopefully we have some time to get more of the Companies' presentation in today before public comment.

DIRECTOR NURU: That's fine.

CONTINUED DIRECT EXAMINATION OF DAVID ASSMANN

BY MR. OWEN:

Q. Mr. Assmann, you've already been sworn.

One quick question: Is it correct that the collection -- that Recology does not get applied to the impound account or COLA?

A. That's correct.

MR. OWEN: Thank you.

CROSS-EXAMINATION OF DAVID ASSMANN

BY MR. DEIBLER:

Q. Mr. Assmann.

A. Hello.

Q. I think I'll start with Mr. Legg's last item, if I might, regarding the 2010 rate hearing process and the question that he mentioned has come up before regarding, I guess you could say, the nexus between the services that are provided through the impound account
and use of residential refuse rates to pay for those. I
don't know if his assessment was specific to programs
from the Department of Public Works or whether it was
more umbrella in nature, but I wondered if you felt that
those same exhibits that have been introduced apply also
to the programs at DOE.

A. Well, I haven't examined the exhibits that DPW
has introduced. I can tell you that our programs are
put together based on -- first of all, the impound
account is funded by all sectors, not just residential
rate payers, but also commercial ratepayers in the City
as well.

We design programs that fall within the
connection to refuse rates within those sectors. So we
look at the overall set of programs as being ones that
have to be connected to refuse rates that have to be
relevant to refuse rates. We designed internal
guidelines for that. We've actually presented those at
previous rate processes on what programs are eligible
or not eligible for the use of impound funds. In fact,
that percentage allocation I referred to earlier was
based on one of these assessments. So we do make sure
there is a connection between the programs we offer and
the general use of refuse rate funds.

Q. So it's accurate that refuse customers other
than residential and apartment customers are also providing funding through the refuse rates to the impound account?

   A. That's correct.
   Q. And helping to fund programs of both departments?

   A. Correct.

   MR. DEIBLER: Thank you. I have a few more questions -- one question, if I might, Mr. Nuru, just as process, as Mr. Assmann won't be here Monday. If there are further questions, is it possible on the third or fourth day of the hearings that those could be asked?

   DIRECTOR NURU: Yes.

   MR. ASSMANN: I will be here for the other hearings. The only hearing I can't be at is Monday's, because the schedule has changed.

   MR. DEIBLER: Thank you.

   Q. Exhibit 12 which you introduced, on page 12 of that exhibit, there's a statement that the relative allocation of funding between the four broad areas of programs in the department of environment, quote, "were fixed, based on legal and other considerations during the last refuse rate process."

   I'm curious if you could quickly, briefly talk about those legal and other considerations?
A. I can tell you that we did have guidelines that were submitted to our Commission in May of 2007 that were based on a number of background documents, including a memo from the deputy city attorney in 2001 on use of refuse rate proceeds; another memo from the City Attorney's office in 2007 on the use of impound account funds on environmental justice projects; and also looking at the set of projects that we were putting together in conjunction with the types of programs that were related to refuse rates. So we have assigned a set of guidelines.

We brought those to our Commission. Combined with the legal advice we had received, we came up with those percentages. And I can supply that -- I'm happy to supply that memo from 2007 that we submitted to our Commission and which was actually approved by our Commission in 2007.

Q. I would appreciate that. Thank you.

One related question. Just from a programmatic point of view, your allocations are sort of frozen in time. Or do you have some opportunity from a programmatic and budget point of view to look at changes that occur over time and to reallocate if necessary?

A. We actually did an analysis based on how our percentages were going into this process and determined
that they were still appropriate, that things had not changed dramatically and we did not need to change the allocation from what they were seven years ago.

Q. Thank you. Page 13 of Recology's narrative summary for the final application, the combined summary for the three companies, references the City's creation of an extended producer responsibility fund, EPR fund, and describes a toxics-collection incentive program. Is that program approved? It's not clear from the application whether that's something that's been approved and is in place or it's in discussion.

A. It's being proposed as part of this rate application, so it's a new program.

Q. Okay. And is it true or accurate to say that this EPR fund, when it's set up, that will be funded entirely by funds from manufacturers for end-of-life issues for products and will not be funded through the refuse rates?

A. That's correct. It's all outside funding.

Q. Great. Thank you.

One question on the public litter cans. There's also -- I think reference was made in some materials -- I think from the Department of Public Works, actually -- that the City is working with Recology to process the contents of the public litter
containers to recover recyclable materials. My understanding is that's not happening now; is that correct?

A. That is correct.

Q. And is that in terms of working on -- is that part of this application from a rate point of view? Would there be increased costs or maybe decreased costs related to recovering those materials?

A. I would have to defer to my colleague here to answer that question.

DPW CLERK: Good afternoon, sir. Please raise your right hand.

Do you solemnly swear that the testimony you are about to give today is the truth, to the best of your knowledge?

THE WITNESS: I do.

ROBERT HALEY,

Having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. OWEN:

Q. Could you state your name for the record and spell your last name.


Q. And what's your current position with the City?
A. Zero waste manager with the Department of Environment.

Q. How long have you been served in that capacity?

A. About 11 years.

Q. And what are your responsibilities?

A. I oversee all aspects of zero waste for the Department of Environment.

MR. OWEN: Thank you.

MR. DEIBLER: Thank you.

THE WITNESS: So I believe your question was is processing of the trash component of the public litter part of this rate application and -- is that correct?

BY MR. DEIBLER:

Q. Well, I may have misunderstood -- let me ask a clarifying question, which was that there is no separate recyclables collection at this time in the container; is that accurate? So it is all collected as one stream?

A. There are recyclables tops on some of the litter cans. All of the public litter cans have a main body for trash. And that material is currently landfill, unless somebody pulls some bottles and cans out of it prior to being recollected by Recology.

Q. So to the extent that there is separate
collection of recyclables, those materials are being recovered now as part of, I would assume, ongoing activity?

A. It's being -- the material in the tops and even some material from the bottoms is being recovered by people scavenging materials, essentially.

Q. Not by Recology?

A. No.

Q. So these references to processing -- physically black-bin processing for the litter cans for recovery of recyclables is inaccurate?

A. In fact, in the application, we'll be getting into the trash processing. It's processing selected loads of trash and some of that trash will come from the public litter cans.

Thank you.

CONTINUED CROSS-EXAMINATION OF DAVID ASSMANN

MR. DEIBLER: I had -- I'd like to ask Mr. Assmann -- three more questions, if I might? I'll try to be quick here.

Q. Does Recology receive profit on either impound account fund or special reserve account?

A. No.

Q. They're not part of the operating ratio, correct?
A. No.

Q. Thank you. In the event that at the point that rates are adjusted in some form, if rate revenues in the future experience a shortfall from that project, similar to what Recology has told us is happening in recent years, would the funding of the impound account still occur at the level that's approved through this process?

A. Yes. The rate revenue going down does not de-obligate the companies from paying for the impound account.

Q. So is some form of guarantee implicit or explicit?

A. Well, that's what the rate process is all about yes.

Q. Okay. Thank you. And so there wouldn't be any circumstances under which that wouldn't occur once the impound account is set -- the amount is set that it would be funded?

A. That's correct.

MR. DEIBLER: Okay. Thank you.

Mr. Nuru, I have no further questions at this time.

DIRECTOR NURU: Okay. Thank you, Mr. Deibler.

I think we will swear you in and hear the Ratepayer
Advocate presentation on outreach.

DPW CLERK: Good afternoon, sir. Please raise your right hand.

Do you solemnly swear that the testimony you are about to give today is the truth, to the best of your knowledge?

THE WITNESS: I do.

PETER DEIBLER,

Having been duly sworn, testified as follows:

DIRECT EXAMINATION

PETER DEIBLER: I've already warned the City Attorney that I have eight exhibits. But I'll try to make that the last.

BY MR. OWEN:

Q. And if you could state your name for the record, position, and how you got that position.

A. Yes. My name is Peter Deibler. I'm serving as the Ratepayer Advocate and I'm a senior manager with the HF&H Consultants LLC in Walnut Creek. And I've been with that firm for seven years, largely in that capacity.

BY MR. LEGG:

Q. Mr. Deibler, could you also just briefly state how you became the Ratepayer Advocate?

A. For these proceedings?
Q. For these proceedings.

A. My firm responded to a request for proposal issued by the Department of Public Works and the Office of Contract Administration to provide these. And we proposed that I would be the individual to provide them. And I am also assisted by several staff in the company.

MR. LEGG: Thank you.

MR. DEIBLER: One second here. I'm switching gears.

I'd like to give a brief presentation. The presentation itself will be my first exhibit. I have sets of the exhibits, so maybe I should just give them all to you now.

MR. OWEN: And if you could distribute to the parties at the same time, that would probably speed things up.

MR. DEIBLER: So, quickly, thank you for the opportunity to provide an overview of the role and responsibilities of the Ratepayer Advocate in this process. This slide has our contact information in terms of Website, phone, and email.

I'd like to speak quickly first the roles and responsibilities, the primary activities.

First, I think it's to act as an independent party. It's a key aspect of the role of the Ratepayer
Advocate to be independent from every other aspect of the process in terms of both the City and the company.

To provide the public clear information regarding the proposed new rates and in this case a new rate structure.

To assist members of the public in providing verbal and written comment and to represent the views and concerns of ratepayers in the proceedings, in the workshops, and in the hearing.

Related to the hearing specifically, assisting members of the public in providing comment and again representing their views.

Providing independent summary review of the draft and final application from Recology with provision of written comment.

And then listening to presentations and cross-examining as appropriate.

I want to come back to the second bullet for a moment, for providing independent summary review of the application. Just, it's important to stress that the Ratepayer Advocate role is not to replicate the review of the application that's being done and conducted by the City in any means. It is at a more summary level, as I mentioned. And our goal is to raise questions, make sure that issues and concerns are addressed in one
form or another through the process, and not so much to
be diving into the details.

Three slides now that are a key part of why I
want to get this entered into the record, the
presentation itself. This is a summary of the outreach
efforts that have been done regarding the Ratepayer
Advocate role, specifically but also in general,
regarding the process itself. And these are activities
conducted primarily by the Department of Public Works in
coordination with the Ratepayer Advocate. And in each
instance the Ratepayer Advocate role has been described
in the information, whatever form it is being conveyed,
along with contact information, how to find us.

So the Board of Supervisors, members
individually and collectively, in workshop and hearing,
press releases and notices. The Website -- DPW's
Website provides a description of the Ratepayer Advocate
role. And a link to our Website, which I'll come back
to in a little bit. And then key City agencies. So you
can see on that slide.

And for stakeholders, information has been
disseminated to at least these five organizations: the
Association of Realtors, Housing Rights Committee, San
Francisco Tenants Union, and Small Property Owners
Association. And, correspondingly -- and I won't read
them all -- but the neighborhood organizations around the City, the Coalition for San Francisco Neighborhoods itself, as well as a number of the individual neighborhood associations.

And the third and last slide regarding the public outreach. A variety of news outlets, including ones specific to the city. And there are a few of those -- the San Francisco Neighborhood Newspaper Association and each of its 14 papers, et cetera.

And I think important to note the last bullet there -- various other English-language, Chinese-language, and Spanish-language newspapers and blogs; and social media through the DPW's Twitter account.

So I'd like to talk just a little bit about the Ratepayer Advocate Website. This is really the primary avenue for providing information that we are using to the public. We have a large amount of material, fairly large, posted to it. Some of the key aspects are a summary of the rate review process. These are sort of portals to lead people into the site discussion of the RPA role, the schedule for the workshops and hearings, et cetera.

As I mentioned, just to jump down to the bottom, links to the DPW rate site, the DOE site, and
the Recology Websites.

I'm going to talk about these materials just a little bit more when I introduce some of these as exhibits. But, quickly, in the RPA materials key aspects of what's on the Website include the following -- a summary of the final application in three languages. That's the one piece that has been translated into Cantonese and Spanish. And that is a succinct summary of what it actually means to what the impacts would actually be to individuals. Workshop summaries; quick, short summaries of each of the two public workshops. Comments on both the draft and final applications. Several requests to Recology along the way. And finally some comments of our own.

These are kind of interesting statistics. We've had 561 Website views. This is in about two months. Website went live about the 15th of February. The largest single day was 62 views, I believe.

And on the Website there's information about how to contact us. There's a phone number where you can leave a message. And we have received and returned calls as well as an email address. And as you can see, we've received six emails and eleven phone calls which we have received and generally responded to a few of those that was not a request or response or didn't seem
that one needed to be made. However -- and I believe
that will be part of the second hearing will be the
introduction of comments that have been received. They
are all strong comments and heartfelt comments. And
some of the folks -- for instance, emails have six or
seven things that they've focused on. SO there's a lot
of content there for people that have taken the time to
provide input.

And I've also had two meetings with interested
members of the public. And I will be likely posting
some times for drop-in public access prior to the
hearing time for maybe at least two or three of the next
dates.

These are the items. At this point I guess
maybe I can just describe these briefly, Tom, and then
enter each one? Would be that the correct way to do
this? This is sort of a series of exhibits that you
have there.

MR. OWEN: That will be fine or you can
describe them all and then we can enter them all into
the record. That's fine, too.

MR. DEIBLER: Well, the first is the
presentation itself. As I mentioned, I particularly
wanted to get the Department of Public Works outreach
efforts into the record as part of it.
The second of the comments on the final application from April 2nd, those are -- I'd like to enter that one. The summary of the second workshop, which was completed on March 26th. The workshop, I believe, was held the 17th of March.

The second request to Recology, which is No. 4 from March 25th.

Number 5 is a summary of the final application. And that is the one that there were actually three versions: English, Spanish, and Chinese.

Comments on the initial application, which were from March 14th.

Our first request to Recology from March 14th also, which is No. 7.

And then a summary of the first workshop, which was held on the 21st of January, I believe, which was completed on the 24th of January.

And I will be entering these into the record. There are items, particularly on the summaries -- the comments on the final and draft application, that could be the subject for cross-examination later in the proceedings.

MR. OWEN: Okay. We will mark these documents as Exhibits 18 through 25, respectively, and receive them into evidence.
(The documents referred were marked and received into evidence as Exhibits 18 through 25.)

MR. DEIBLER: Thank you. If I can close my presentation.

DIRECTOR NURU: Thank you.

So I think we will now open for public comment. If I could see how many people would like to comment from the public. I have three cards here. A showing of hands? Okay.

So public comment will be five minutes per person. And I'll ask David Pilpel to come up first. And you'll be sworn in.

MR. PILPEL: Actually, if we are making public comment, do we need to be sworn in or not?

DIRECTOR NURU: Yes, you should.

MR. OWEN: It depends. If you intend to provide factual information that you'd like the Hearing Director to consider, then you probably should be asked to be sworn in.

MR. PILPEL: If we just have comments at this hearing then do we not need to be sworn in at this time?

MR. OWEN: If it's just argument, then, no, you don't need to be sworn in.

MR. PILPEL: Okay. I don't have any documents
today, so I'll reserve that opportunity for the future.

Good afternoon. David Pilpel. I've been involved in these procedures for a number of years. I have some comments and questions at this time and I will supplement these with some written documents that I will be putting together as a result of the presentations today. And I'm sure you'll be hearing from me further in the future.

First, with respect to the exhibits that were entered and the application itself, is it possible for a copy of the application to be available for the public at the hearing; and as exhibits are entered, to add those to the binder so that we can have that same opportunity? And could there also be a location where those exhibits are kept in DPW's offices or some other location so outside the hearings there will be access for the public?

DIRECTOR NURU: The answer is yes. And I think at both the DPW office we can make those available, too.

MR. PILPEL: Great. Appreciate that.

I actually had a couple of questions for Mr. Assmann, if today is the day that he's here, if I could just present those now; and you can -- I don't know how this works.
DIRECTOR NURU: You have five minutes so --

MR. PILPEL: So the questions that I have for Mr. Assmann: He made a comment related to the Altamont landfill agreement that, according to the latest projections, we still have capacity through January of 2016. If the City could introduce an exhibit showing that and perhaps showing the landfill tonnage from the last five or seven years perhaps, since the '06 rate application, that would be helpful, so that we can see what the tonnage has been and what the available capacity is. That would help. I look forward to an exhibit to that end.

I would also want to expand on the question that Mr. Deibler asked about the impound account and essentially a nexus question with respect to residential ratepayers and ratepayers generally. If, in fact, the impound account funds are coming from single-family residents, apartment, and commercial customers and presumably City or other municipal accounts, if there's some way to account for the revenues by customer class and the expenses in programs by program category.

Essentially, I would like to understand if municipal customers are paying roughly what the City is expending through the impound account for the municipal zero waste sector. That would be helpful. And
similarly for residential and commercial.

And I wanted to understand further if Mr. Assmann would be asserting a nexus between residential ratepayers and the benefit that they receive from Department of Environment zero waste programs. I continue to believe that the direct costs of collection processing and disposal -- I believe "disposition" is the word used in the 1932 ordinance -- are appropriate costs for residential ratepayer. I think it would be helpful to have on the record what the programs and costs that Department of the Environment bears and how that relates to residential ratepayers by whatever argument the City would use.

I have a number of other questions and comments that have come up as a result of the presentations today. I don't know that I want to get into those right now, because they're fairly detailed and I want to have a chance to think about them over the weekend. So perhaps I can just put those in writing and we can come back to further comment next week.

But I think this has been very helpful today. And I wanted to thank you for the opportunity to begin my public comment today.

DIRECTOR NURU: Thank you. We will accept that in writing and we will have other hearings where
there will be public comments.

MR. PILPEL: Looking forward to that.

DIRECTOR NURU: Thank you.

MR. PILPEL: Thank you.

DIRECTOR NURU: Next, if I can ask Jeanette Berger to come up.

MS. BERGER: I probably won't come to the other hearings. But I'm mostly concerned about the remark about the hotspots, because in the OMI there were paint cans that has been on the street for weeks and weeks and even more weeks and never get picked up.

And my main concern is that if people get a smaller garbage can, that's fine. But they are going to have to reduce the garbage. That's not going to happen, not when you have, like in my neighborhood, two-bedroom house, like, with maybe ten people living in it.

You can reduce the garbage can, but you're going to have to reduce the amount of garbage you put out. That's not going to happen. But I guarantee you what will happen is they will throw it on the sidewalk or put in wherever they feel like putting it, because they're not going to agree to pay more. And when the rates go into effect, everybody is going to be shocked beyond belief and call up the representative and complain about it. That's just common fact.
And I talked -- I see, because of what I do for a living, the garbage can being emptied. And I did yell at them, but they get more garbage on the sidewalk than they do in the truck. If you sign a 20-year lease on the truck, that doesn't do for San Francisco what it's supposed to do.

And people have to go ahead and bag the shredded material. Businesses don't. A lot of people don't. But the garbage man gave me a note on my garbage can that I have to bag my shredded material, because when it's windy it blows all over the street. That's another problem. You have to clean the streets and keep the sidewalks clean. Then we can talk about raising the rates.

I never ever put my black can out. But I still have to pay an arm and a leg, I think it's two or every three months. And as soon as I get my bill, it's in the mail to the garbage company. Why should I have to pay every week for a black can I never put out?

I called the Recology people. "Well, you have to pay for the other people." That's the remark I got.

So I think those issues should be addressed before you go ahead and gorge the taxpayers and investors and stakeholders. They can sweep the streets and the curb. They're not that high and mighty. They
think they are, but they're not. They can sweep the streets and, you know, whatever. That would help the City out a lot, make our streets nice and clean.

So, please, those are issues that please try to think about. Thank you.

DIRECTOR NURU: Thank you for your comments. Next, we have Irene Creps.

MS. CREPS: You want to swear me in?

DPW CLERK: Good afternoon, ma'am. Please raise your right hand.

Do you solemnly swear that the testimony you're about to give today is the truth, to the best of your knowledge?

MS. CREPS: Yes, I do.

DPW CLERK: Thank you.

MS. CREPS: Recology says that the rates need to be increased by 21.5 percent because they are losing revenue as customers switch to smaller and cheaper black bins. But is that the whole story? Recology plans to change where they dump our San Francisco trash. Instead of taking it to the closer Altamont landfill, where they have been doing so for many years, which is located near Livermore, they intend to haul San Francisco's trash almost two to three times as far to their own landfill in the Sacramento Valley, the Ostrom Road landfill near...
Wheatland.

Doesn't hauling trash a longer distance cost more money? Then they have to build a railroad spur several miles to get to their landfill. And Beale Air Force Base, located nearby, has a railroad spur part way. But they have denied Recology the use of their railroad spur. So Recology has to spend more money to increase the length of their own railroad spur. Now, that is going to cost them money. In addition, San Francisco has canceled Recology's contract to take our trash to Wheatland because Recology first needs to do an EIR, another cost. Furthermore, there are environmental costs.

Recology, I ask you, why take our San Francisco trash to the Sacramento Valley beside valuable farmland and walnut orchards and a high water table within a floodplain, where you initially need to spend much more money? Save money and save the environment and keep our trash in the Intercoast Range far from farm and from high water tables from the Sierra Nevada Mountains. I really -- I ask you that.

I know this area because my grandfather came to California in 1850. And he settled in the Wheatland area. And the land in which you have your landfill formerly belonged to my aunt. I know that area more
than any other area of California.

And I just -- it disappoints me terribly to think that we in San Francisco are a green city and we love our state, we love the farmland, which agriculture is one of our major industries. And should San Francisco take our trash, spend more money, and take our trash to the Sacramento Valley?

I thank you.

THE COURT: Thank you.

So I'm looking at the clock. It's a little after 4:00 and -- oh, one more public comment.

Thank you. Nancy Wuerfel.

Is there any more public comment today? Okay.

MS. WUERFEL: Good afternoon. I thank you for having these hearings. I have a couple of comments.

The first one is I would like to ask the City Attorney a very indelicate question, which I hope you'll get back to us on at a future hearing.

I consider the ratepayer money that's going to DPW that would be used for rendering citations for violations money-laundering. And I will tell you why. It's not that I'm going to be happy about letting anybody off the hook for doing illegal work. But I think it's a very bad precedent, if not outright illegal, to take ratepayer money and deposit the
proceeds of those fines into the general fund. You can't tell me that's okay. You just can't.

If you want to have citations and City general fund pays for people, be my guest. These SOBs that are leaving mattresses around need to pay a fine. But I don't want to set a precedent where you hire six people and they go out and they educate and they hand out fines and the City Treasurer's Office gets this money and then comes back and it's an offset. This is a laundering system I don't think is a good idea. And I recommend you look into this very deeply, because I'm sure the State of California has got some issues on this, at least I do.

So let's be careful about giving you a million dollars that you call outreach, when indeed it sounds to like this is a problem. Now, if you want to propose legislation for the Board of Supervisors to rebate that money into this program, I am not opposed to it. But I'm opposed very much to using ratepayer money into the general fund. I think I've that said pretty clearly.

Second thing is I'd like to suggest that with the $4 million that the ratepayers are going to be offsetting your budget, I have not heard anything from your department, sir, that's telling me what you're doing with that extra four million. I'd like to
recommend that you start doing more for the street
trees. But I don't want to just give you $4 million
that is offsetting your original cost for cleaning up
the streets and not know what is going to be outcome of
that benefit to you. I think that's fair that you tell
me now that it's on my rate bill. And I'm still paying
taxes in this town. You need to tell me what else is
going on with your budget. So I'll wait to hear from
you next time.

The last things I want to mention is that the
Examiner has been doing some good things about bringing
us up to date. In today's paper -- I read it right
before I came down here -- it talks about the rates are
going up, but it mentions a thing by a spokesman by the
name of Adam Alberti. I don't know who he is. But he's
quoted saying that, if you are able to reduce your waste
altogether, you could go down even further than the
20-gallon limit.

I mention that to you because, whether this is
a true statement or not, people are reading it; and they
are thinking they could possibly get even below the
rates that you're talking about. You need to understand
that we read the paper and this is our bible. Look
who's here today. Just a few of us. So somebody's got
to get the word out. Can we get lower than a 20-gallon
waste bin? Can that happen? Can you really reduce these costs, because people might be responsive to that.

And the last thing is the other issues having with the rip-offs. People -- everybody I talk to is madder than hell that people go and steal the blue bins. I saw the information at the workshops. And I appreciate the fact that Recology has done a fine job in explaining where the recyclables have gone and they don't feel that the blue cans and everything are that badly hit. Well, that's not our perception.

And maybe the cost could be offset through the ratepayer if there was a better control, because these people are out every single day of the week. There is not a day in a residential neighborhood that people aren't having their bins gone through. And it's sort of an invasion of privacy on top of everything else. So I just want to bring to your attention.

What we're reading and how we are seeing this and we're judging you, the City government. And we're judging Recology, because we're saying, "Why in the hell are you going to charge me more when you don't do anything about collecting the money that's right there on the street?" Whether it's the big outcome of money or not, that's not the perception. The perception are people are mad and they're very angry about this.
People say, "Are you going down there? You got to tell them." So I'm telling you on behalf of all of us.

Thank you very much. And I will look forward to at least the answers from each of you on what's happening to my $4 million replacement and if it's legal for us to launder money this way. Thank you.

DIRECTOR NURU: Thank you.

Okay. If there's no more public comment, I will close public comment.

And we have about 45 minutes and I will ask if the companies want to continue their presentations at this time.

MR. BAKER: Well, we have Mr. Braslaw available for cross-examination. Does the Ratepayer Advocate and the City wish to cross-examine him now?

MR. LEGG: We're not ready to cross-examine Mr. Braslaw yet. We don't have any questions ready.

I could be ready to be cross-examined by the Ratepayer Advocate.

MR. DEIBLER: [inaudible, off mic]

MR. LEGG: Mr. Baker, I'd rather -- 45 minutes is a chunk of time. I'd rather have you guys start whatever presentation you have for Mr. Glaub today so we can finish Mr. Glaub's presentation on Monday and have some time for cross-examination. If you guys don't want
to do that, I can be available for cross-examination from the Ratepayer Advocate. But we're going to lose -- I know you guys have spoken about the need for more time. I think we'll lose time on our calendar if we don't start with you guys.

MR. BAKER: We're prepared to proceed with another witness, but I'm just offering Mr. Braslaw for cross-examination if the Ratepayer Advocate would like to do that now.

MR. DEIBLER: [inaudible, off mic]

MR. BAKER: All right. Actually, we want to call Mr. Crosetti next.

MR. LEGG: That would be fine.

MR. WHITE: Mr. Nuru, my name is Gabriel White. I'm with Arnold & Porter. I'll be examining Mr. Crosetti.

DIRECTOR NURU: Okay.

Swear in the witness.

DPW CLERK: Good afternoon, sir. Please raise your right hand.

Do you solemnly swear that the testimony you're about to give today is the truth, to the best of your knowledge?

THE WITNESS: I do.

DPW CLERK: Thank you.
MIKE CROSETTI,

Having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. WHITE:

Q. Good afternoon, Mr. Crosetti.
A. Good afternoon.

Q. Could you please state your name for the record and spell your last name.
A. Mike Crosetti, C-r-o-s-e-t-t-i.

Q. And what is your position with Recology?
A. I am the general manager of Recology San Francisco.

Q. Could you say something generally about your responsibilities?
A. I am responsible for all the processing operations in San Francisco for Recology.

Q. How long have you been with the companies?
A. Nine years.

Q. Okay. Mr. Crosetti, are you familiar with the program outlined in Recology's application called trash processing?
A. Yes I am.

Q. Generally, what is that program?
A. Well, the company has plans to begin processing black-cart trash for the purpose of
extracting organic material that can be used for either
composting or anaerobic digestion.

Q. Where is the company going to be conducting
that processing activity?
A. It will be done on the west side of the
existing transfer station.

Q. Okay. Is Recology presently processing any
portion of the black-cart stream in this way?
A. We have done some tests on black-cart
processing, but no production-scale work.

Q. So is this the first production-scale
processing you'll be doing with the black cart?
A. This will be the first, yes.

Q. What do you mean by "production-scale"? What
sort of scale are we talking about?
A. We are talking a hundred-plus tons a day of
material that we'll be processing.

Q. Okay. How does that compare to the total
black cart stream?
A. The black-cart stream is about up to 1,400
tons a day five days a week.

Q. Now, let's go into the procedure that you'll
be doing a little bit more. What sort of equipment do
you need for this processing?
A. Yes. We'll need a size reducer that we'll be
using as a bag breaker, a star screen, and a bio-separator in addition to some conveyors that work with these machines.

Q. Can you describe the process? Black-cart material arrives at the facility. What happens to that load as it goes through the process?

A. Once the truck unloads on the transfer-station floor, a loader will put it into the size-reducer back-breaker. And then the material is fed on to a screen. This is a star screen, a flat-table screen. The larger material flows across the top of the screen. The smaller material, two-inch and under, falls beneath the screen. The larger material go over a platform or a table that sorters will be able to pick bottles, cans, and paper from. The unders from this process will go to the bio-separator, a third piece of equipment, that does some further screening and separates that material into two streams, one that is organic-rich and the other that contains mostly nonorganic material.

Q. Okay. Now what happens to those two streams of material that come out of the bio-separator?

A. Well, the organic-rich material is either going to go to anaerobic digestion or composting. The other stream is really rejects that will probably be landfilled.
Q. Okay. Now, in terms of the overall goals of the City and Recology with respect to the sort of thematic goals of the City and Recology with respect to this rate proceeding, how does this processing of black stream fit in?

A. Well, first it provides some diversion. We're hoping to get about 50 tons a day of diversion right now. But then it provides some insight and experience to how we approach zero waste and how to scale this up into larger facilities that can process more material.

Q. So is it true to say that it's part of the learning process that's going to be necessary for building larger-scale processing?

A. Yes, it is true what you're saying.

Q. With respect to this new program that's going to be implemented now, how much is that going to cost?

A. Well, we've translated to how much it would cost in the rate for a residential 32-gallon cart at 12 cents a month.

Q. Is there anything else you'd like to add about the processing?

A. No, not at this time.

Q. Then let's move on another program. Are you familiar with the toxics-collection incentives programs.

A. Yes, I am.
Q. What is that program?

A. The Department of Environment has established performance targets with incentives with the goals of increasing the capture rate of batteries, fluorescent tubes, and paint.

Q. Okay. Now, by "incentives" means Recology gets paid something, right?

A. That is right.

Q. And it has to collect a certain amount of certain types of materials --

A. That's correct.

Q. -- in order to get those payments?

A. Uh-huh.

Q. What are the specific kinds of materials that are part of the toxics-collection incentives?

A. Batteries, fluorescent tubes, and paint.

Q. Right. And how are the incentive payments structured?

A. Well, they're structured in two tiers. And in order to earn the incentive, we have to reach each tier -- we have to reach each material type, each tier. So we have to get all three. I don't know if I said that right, but we have to hit the tier on all three materials to earn the incentive.

Q. Right. So there are two tiers; is that
correct?
   A. Yes.
   Q. Then for each tier you have to meet goals for each of three types of materials -- paint, household batteries, fluorescent lamps -- in order to get paid?
   A. That's correct.
   Q. Now, I think you mentioned who sets the tonnage targets?
   A. The Department of Environment sets tonnage targets.
   Q. Okay. Are they level each year? Are the targets each year going forward the same?
   A. Oh, no. They increase starting with Rate Year '14. And going on to '15 and '16, they increase each year.
   Q. Okay. What's sort of activities is the companies contemplating to meet these targets?
   A. I think the most effective would be to increase outreach, let the residents of San Francisco know what programs are available to dispose of batteries, fluorescent tubes, and paint. And that would be probably be the most effective way to increase the numbers.
   Q. Now, there are two tiers we talked about. What happens if the company makes it to Tier 1 but
doesn't meet the goals set for Tier 2?

A. If we don't make Tier 2, the company would be allowed to propose a new program or maybe the expansion of an existing program to utilize the money, subject to the approval of the Department of Environment and DPW.

Q. Okay. Now, the money for these to be paid out for these incentives, how much of that is coming from the ratepayer?

A. None of it's coming from the ratepayer. It's all money from manufacturers providing end-of-life management for these products.

Q. Okay. Do you have anything to else to add on the toxics-collections incentives?

A. I don't. No.

MR. WHITE: Then I think you're excused for now.

DIRECTOR NURU: Thank you.

MR. BAKER: So I take it you'd like to reserve cross-examination for Mr. Crosetti till later also?

MR. LEGG: Yes.

MR. BAKER: Then we'll call John Glaub. Before we start, let me hand out the exhibits I'm going to use with Mr. Glaub.

DPW CLERK: Good afternoon, sir. Please raise your right hand.
Do you solemnly swear that the testimony that you're about to give to the Court is the truth, to the best of your ability?

THE WITNESS: I do.

DPW CLERK: Thank you.

JOHN GLAUB,

Having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BAKER:

Q. Good afternoon, Mr. Glaub, could you state your full name for the record, please?

A. John Glaub, G-l-a-u-b.

Q. What is your job?

A. Manager of group finance and administration in San Francisco.

Q. For what company?

A. Sunset Scavenger Company, but I work regionally -- all three companies.

Q. All three companies being Recology --

A. Recology Sunset Scavenger, Recology Golden Gate, and Recology San Francisco.

Q. How long have you worked for one or the other Recology companies?

A. I've worked for Recology for 16 years in total.
Q. Before it was called Recology?
A. And its predecessor, right.
Q. Norcal Waste Systems?
A. Right.
Q. What role have you played in this particular rate application?
A. I've played many roles. We've worked in assembling all of the various cost schedules that were part of the rate application; developing the various components of the application, starting with alternative structures for the new rate methodology; as well as some of the programs and zero waste facility development.
Q. The application includes Contingent Schedules 1 and 2; is that right?
A. Yes.
Q. Lets talk first about Contingent Schedule 2; what is that?
A. Contingent Schedule 2 concerns the construction of an expansion to our existing transfer station on the western side of the transfer station. It's known as the "west wing expansion." We have identified this what we call a near-term facility expansion opportunity providing us with additional infrastructure in San Francisco. We are very site-constrained presently at our Tunnel and Beatty...
site. And prior to constructing and implementing a major site redevelopment for our zero waste facility, this was one opportunity that we found would give us some additional infrastructure in the near term.

Q. For what purpose is this space -- this additional space intended?

A. The initial purpose for this space was intended for the continued development of new processing technologies to achieve zero waste.

Q. Do the plans for this additional space have anything to do with what Mr. Crosetti just described?

A. What Mr. Crosetti just described is independent of the plan for the west wing. What Mr. Crosetti described is a processing operation that would be implemented in our existing infrastructure in the transfer station. So in the existing building this proposed west wing expansion, as part of Contingent Schedule 2, would provide adjacent additional space which can certainly augment the operations that Mr. Crosetti described; or they could be for completely different types of processing development.

Q. When does Recology propose that this additional space be constructed?

A. We would propose constructing it as soon we would receive approval. But because there's going to be
a bit of a time lag and we have a one-year rate, it was proposed as a contingent schedule for which the cost would only go into effect once we reach a milestone. That milestone has been identified as and described in the rate application as the first payment to the building contractor. So essentially as building construction began, which would mean that all design work was completed, building permits were obtained, and environmental permits were achieved, and we're ready to start.

Q. Have plans yet been prepared for this addition?

A. We have conceptual plans. The next phase of design would be developing construction drawings that would be submitted to the building department. Much more detailed design level for actually constructing the building from.

Q. In Contingent Schedule 2, is a price estimated for this work?

A. Yes.

Q. How much is that?

A. The cost of the entire project is estimated at $6.6 million on a construction basis. However -- and that would be incurred by Recology San Francisco itself. But on an annualized basis, that would be passed along
in the tipping fee by means of depreciating it over a 20-year period. So the annual cost to Recology San Francisco would be $330,000 which would impact their tipping fee by 56 cents is what we estimate. That tipping fee then is passed on to anyone who brings materials to Recology San Francisco, which is predominantly Recology Sunset Scavenger, Recology Golden Gate, but also outside customers -- self-haul, public small contractors.

And we've estimated -- it's kind of an overall estimate. As early testimony from Mr. Braslaw pointed out, we are not -- in this rate application and the change to a new zero waste structure with fixed costs, base charges, blue and green charges, everybody's rate is going to be changed a little bit differently. But, on average, it's going to be about four cents for a collection customer.

Q. If the Director and the Rate Board approve Contingent Schedule 2, when would you anticipate the assessment of this additional amount to begin? That is when do you believe that rates would be affected?

A. That would be an estimate of the permitting and construction schedule -- and permitting usually being the most uncertain in terms of predicting a schedule. But probably maybe 18 months, if everything
goes well.

Q. And the overall costs that you said --
6.6 million?
A. Yes.

Q. What's the basis of that?
A. That cost estimate was prepared by TBD Consultants, a third-party consultant who examined the construction plans, the conceptual plans prepared by our architect and engineers, and developed that estimate.

Q. Once this area is completed, what are the companies' initial plans for use of the area?
A. In the year between the completion of construction and then the implementation in the future of our new zero waste facilities, we envision this building housing processing equipment to process the trash, the black-bin stream. We envision working closely with the Department of Environment to determine exactly what those processing operations would be between our proposals to them and their review of technologies in other places around the world and collaboratively identify what those operations are going to be, implement them, run them -- in many ways similar to what Mr. Crosetti described, taking it into operational scale where this is going to be run on a daily basis and learning from that process, making
modifications, maybe adding another step or here or there, another piece of equipment processing.

Q. So you mentioned the possibility of the development of zero waste facilities sometime in the future?

A. Yes.

Q. Can you describe that in more detail, as to what the thinking is on that.

A. We have developed plans for a major site redevelopment at our Tunnel and Beatty location that would involve construction of several very large buildings, three of them processing buildings devoted to the black, blue, and green streams. We have some other major infrastructure improvements that have to be made as part of that, such as a maintenance facility; and we would also be addressing a new public disposal facility, as well as new household-hazardous-waste-management facilities as part of that. So it's quite a major project. It would be something that would be most likely phased in over probably a three-phase construction project, possibly in the range of about nine years, if everything went according to plan.

Q. And what benefits would the City receive and the ratepayers receive from this new zero waste facility that is not currently available? In other words, why do
it?

A. To achieve the City's policy goals of zero waste.

Q. And why would new facilities be required to do that?

A. Our current facilities are not capable of achieving that.

Q. Capable in what regard? Don't have the proper equipment?

A. Don't have the proper equipment nor space.

Q. So what about the space issue? Could the zero waste facility that you're talking about be constructed on Recology's existing property in the Tunnel/Beatty area?

A. No, it cannot. Our architects and engineers have been examining this for several years and have concluded that our current property is insufficient to provide for the zero waste facilities of the future.

Q. So is Recology considering any steps to address the problem of lack of sufficient space?

A. Yes. We have been exploring the purchase of land with the adjacent landowners; and we have begun that process of offers to the landowners to obtain the land that we think is needed to construct the facilities. And I may add that we have been in close
communication with the City about our plans for zero waste facilities, about those needs for additional land, and what those activities have been in efforts to obtain the additional land.

MR. BAKER: Let me show you a map here, which we can make the next exhibit in order. What number would that be, Mr. Owen?

MR. OWEN: 26.

MR. BAKER: 26.

Q. All right. To orient us here, Mr. Glaub, am I right that the existing transfer station is right here?

A. There it is, yes.

Q. And this is Beatty Road?

A. Correct.

Q. Going along there?

A. Yes.

Q. And Tunnel Road is right here. And right here is where Sunset Scavengers' former office is, right?

A. They're a little bit up Beatty Road from there. We currently have operations offices in the location that you pointed on the corner of Beatty and Tunnel; and it also serves as the cart-assembly warehouse. Right where your pen is pointing, those are maintenance facilities and the former Sunset office.

Q. What are the parcels that are in color, A
through H?

A. So those are parcels that we are attempting to acquire they are shown because they're all different assessor's parcels, so different parcels on the assessor's parcel map. Most of them are actually owned by the same landowner, but there are a total of about three landowners involved there.

Q. Are those parcels that are in color located in the county of San Francisco?

A. No, they are not. They are located in San Mateo County.

Q. So does the county line between San Francisco and San Mateo roughly run along Beatty Road?

A. No. It's actually shown on that slide. It's about three-quarters to the left. Start at the left side, about one-quarter over.

Q. Right there?

A. Right there. That's the county line.

Q. So as it currently happens, the transfer station is in San Francisco and the various maintenance facilities and other properties owned by Recology that's to the left of Beatty Road is in San Mateo County?

A. Yes, that's correct.

I might just point out, since we haven't addressed it, there is a large piece of land, also in
gray, to the south of Beatty Avenue. That's also our
property.

Q. This property right here is owned by Recology
as well?

A. Yes. That's the site of some maintenance
operations and our roll-off department.

Q. So -- I'm sorry?

A. There is a curving line that runs from
southwest to northeast that forms the end of various
colored parcels. And the reason those parcels are
defined that way is because that is the planned
alignment of the Geneva extension. The Geneva extension
is a major transportation improvement that's been
planned for well over ten years. It would involve
extending Geneva Avenue from Bayshore Boulevard over the
tracks and eventually to the Candlestick Point
intersection and also with a flyover to Harney Way and
onto Bayview and Candlestick Point. So that line is
kind of the edge of the right-of-way of the development
of the Geneva extension, which is why we've proposed
that it would be appropriate for the companies to
acquire the land north of the Geneva extension and make
them contiguous with our existing property to provide
the room necessary for zero waste facilities.

There's two other parcels in kind of orange
and red at the bottom of the screen on the west side there. They are actually west of Tunnel Avenue. And they are shown because they provide a very unusable little strip of land between the railroad that runs there and Tunnel Avenue. And the City of Brisbane has expressed a willingness to relocate Tunnel and tuck it up against the railroad right-of-way and then providing -- and then we would essentially effectively be able to take that additional land as well, Parcels G and H. So that's all part of our land acquisition efforts.

Q. So I have reoriented the map so it's now in the north-south configuration; is that right?
A. That's correct.
Q. Does the top right there show the square footage and the acreage of the parcels that are in color?
A. Yes, it does.
Q. And total acreage is 13.88 acres approximately, which is the same as 604,000 square feet?
A. Yes.
Q. Approximately. Is Recology making efforts to acquire the parcels that are in color?
A. Yes.
Q. What efforts have been made so far?
A. We have a commercial real estate agent working
on our behalf. We have submitted two offer letters to
the primary landowner, which is Universal Paragon
Corporation. And we've been exploring arrangements with
other landowners.

Q. Has Recology obtained an appraisal for the
value of the property?
A. Yes, we have.
Q. And how much is that?
A. We actually have obtained two appraisals, one
in 2010; but we updated it in 2012 to make it more
current so we could submit our offer letters and a more
current estimate. That estimate is about 24.75 per
square foot.

Q. So $24.75 per square foot times 604,000 square
foot is approximately what?
A. It's approximately $15 million.
Q. Is there any assurance at this time that
Recology will actually be able to buy these parcels?
A. No.
Q. So Recology has included nonetheless a
contingent rate request with regard to this acquisition.
Tell us how that contingent rate schedule would work.
A. Well, we had proposed that the contingent rate
schedule would only become effective once Recology took
possession of the land, so, again, making it a
contingent schedule if and only if that happens.

And we have proposed a methodology for compensating the company for the carrying cost associated with the purchase of the land, which as we just identified is a significant number, about $15 million probably as a starting point; and we actually expect it to probably end a little north of there.

Q. Don't tell the seller that though.

A. No.

Q. Okay. No one from the seller is here. They will never know.

How does the formula for Contingent Schedule 1 translate a $15 million purchase price into an annual carrying cost for compensation in the rates?

A. Okay. We have proposed a methodology for reimbursement that follows the utility regulatory framework that covers land acquisition acquired for future use. This is a methodology that's in use in other utility rate settings. And while it is not necessarily applicable -- it is used by the California Public Utilities Commission, I should add -- it does provide a common framework that is used in similar rate-setting processes.

Q. Is this particular methodology described in
the thick packet of papers that would be our next exhibit?

A. Yes.

MR. BAKER: So we would offer this, Mr. Owen, as exhibit what now?

MR. OWEN: This would be 27. Do you want to move both exhibits now?

MR. BAKER: Yes, I would. Thank you.

MR. OWEN: Okay. As Exhibit 26, which we will receive into evidence, it's a single sheet, a map bearing the title "Proposed Recology Property."

The second document, which we will mark as Exhibit 27 and receive into evidence, is an approximately 57-sheet document bearing the title "Methodology for Calculation of Carrying Costs for Plant Held for Future Use, Contingent Schedule 1."

MR. BAKER: Actually, on Exhibit 27 the pages are numbered and there's writing, in some cases, on both sides, so it looks like it's 107 pages all together. You said 57.

MR. OWEN: 57 sheets.

MR. BAKER: Oh, 57 sheets. Very good.

MR. OWEN: To track down things by size in the future.

MR. BAKER: Thank you. And while we are at
it, we have one other document that pertains to this presentation, which is a letter from me to Mr. Nuru dated April 11th, 2013, which lays out the legal framework for regulatory rate-making concept that Mr. Glaub just referred to, namely the plant held for future use. So if we could mark and have that accepted as Exhibit 28, please.

MR. OWEN: Yes.

(The documents referred were marked and admitted into evidence as Exhibits 26, 27, and 28.)

BY MR. BAKER:

Q. All right. Let's go to Exhibit 12, Mr. Glaub. Does Exhibit 27 on its first page describe the cost recovery methodology that you just outlined?

A. Yes.

Q. Okay. And can you tell us in a little more detail exactly how it would work. If the property is, in fact, sold -- if the property is purchased for $15 million, when would Contingent Schedule 1 trigger a rate increase?

A. It would trigger a rate increase when Recology took possession of the property.

Q. What if Recology under this proposal took possession of some but not all the parcels?
A. There is some language in the exhibit that addresses that point.

Q. And the language indicates that Recology could make a judgment as to when it had sufficient parcels to trigger but that it could only trigger once; is that correct?
A. That is correct.

Q. Now, how would the annual carrying cost be calculated under this proposal?
A. The reimbursement would be calculated using the weighted average cost of capital for that capital expenditure.

Q. And what is the weighted average cost of capital?
A. It is the weighted average cost of debt and equity to a company.

Q. In the proposal for Contingent Schedule 1, what weighted average cost of capital have you used?
A. 8.25 percent.

Q. How did you come up with that number?
A. That was based on an industry analysis and adjustment made for the size of the companies.

Q. And if you turn to Attachment 3, which is page 104 of this exhibit -- do you have the exhibit there?
A. I don't think I do.
Q. Well, that certainly is a handicap. You're brave at getting through this.

A. I know it pretty well.

Q. So this exhibit has a single cover page which we have just been talking about and then it has three attachments; is that right?

A. Correct. That is correct.

Q. Let's quickly walk through it first. The first attachment begins on page 3. And what is that attachment?

A. That is an appraisal of the property prepared by Cushman & Wakefield.

Q. And is that the appraisal that you referred to earlier that appraised these parcels at -- what did you say? 20?

A. 24.75 per square foot, yes, it is.

Q. Now, this appraisal is actually for not only these parcels that are depicted in color on Exhibit 26 but also some other parcels; is that right?

A. Yes. It essentially conducted on the entirety of the parcels as they exist. But a portion of them will lie both under the Geneva extension and then to the south of the Geneva extension. So our efforts are to acquire the land north of the Geneva extension, which is depicted by the colored portions of those parcels. The
real estate appraiser didn't have that -- didn't work
with that type of information. They just looked at the
parcels themselves.

Q. But is it correct this appraisal from Cushman
& Wakefield includes the parcels depicted in color on
Exhibit 26?
A. Yes.

Q. Then going further through the exhibit,
there's an Attachment 2, also?
A. Yes.

Q. Attachment 2 is, in fact, Exhibit 26 again,
right?
A. Yes.

Q. And then Attachment 3 is what?
A. Attachment 3 is the presentation of the
weighted average cost of capital.

Q. And that shows how you went about arriving at
8.25 percent as the factor used for that purpose; is
that right?
A. Correct.

Q. And could you describe again just very briefly
the methodology that you used to come up with 8.25?
A. I think on that point I'm going to defer to
Mr. Braslaw as far as the detail of that calculation.

Q. But you mentioned that it's based at looking
at industry averages?

A. Industry averages of other firms and adjustment for the size of the companies.

Q. Okay. Then going back to the first page of Exhibit 27, what did you do with the 8.25-percent number in order to calculate the proposed carrying costs?

A. We multiplied the 8.25 percent times the purchase price, which was the capital expenditure.

Q. Now, does Recology's proposal account for the possibility that the property might not be developed after all for whatever reason and Recology would choose to sell it?

A. Yes, it does.

Q. How does the proposal address that situation?

A. The proposal includes a provision where Recology would reimburse ratepayers up to the accumulated payment for the cost of capital over the years, up to the proceeds of the sale.

Q. And if a zero waste facility is built on this property, as it's contemplated, and put into use, would the carrying costs surcharge stop?

A. Yes. We would then address that in a subsequent application for cost reimbursement for those new facilities.

Q. Just like you receive cost recovery now for
facilities that you use; is that right?

A. Yes.

MR. BAKER: This is a good time to stop. I actually have nothing further of this witness on these subjects.

DIRECTOR NURU: Okay. Thank you.

So it's five o'clock. I think at this time we would like to continue the hearing on Monday, April 15, at 1:00 o'clock. The room will be 416. And we'll pick up the agenda items that are listed from today. And I think it's been a great day, so thank everyone for participating in these proceedings.

And we'll adjourn.

(Hearing adjourned at 5:00 p.m.)
zero [36] 9/8 18/1 18/12 18/14 18/18 18/19 18/22 21/24 22/23 28/16 38/3 38/9 43/21 71/20 72/19 73/23 74/5 84/18 94/1 94/7 107/25 108/5 122/9 127/12 128/2 128/9 130/13 131/14 132/4 132/24 133/2 133/11 133/18 134/1 136/24 145/19
zoning [1] 87/12