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CITY AND COUNTY OF SAN FRANCISCO  
DEPARTMENT OF PUBLIC WORKS  
DIRECTOR'S HEARING ON PROPOSED REFUSE RATES  
2017 REFUSE RATE APPLICATION

CITY HALL  
1 DR. CARLTON B. GOODLETT PLACE, ROOM 400  
SAN FRANCISCO, CA 94102

Wednesday, April 26, 2017  
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FILE NO.: AB0285D



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| <p>1 Public Works clerk to make an announcement concerning<br/>2 the Department's efforts to comply with Title VI of the<br/>3 Civil Rights Act and ask the corporation with a public<br/>4 participation survey.<br/>5 Mr. Pujol, please proceed with your<br/>6 announcement.<br/>7 MR. PUJOL: Jose Pujol.<br/>8 Title VI of the Civil Rights Act requires<br/>9 equal and equitable access to San Francisco Public Works<br/>10 program activities and services. To document that the<br/>11 Department is in compliance with Title VI, we ask that<br/>12 everyone attending and participating in today's hearing<br/>13 complete a public participation survey. However, this<br/>14 survey is optional and completing it is not required for<br/>15 participation. The data that you provide will be<br/>16 analyzed and used to ensure residents and stakeholders<br/>17 in the community are involved in the refuse rate hearing<br/>18 process. The information will not be used for any other<br/>19 purposes. You will find this survey on the sign-in<br/>20 table. Please place completed survey forms in the<br/>21 collection box.<br/>22 Thank you.<br/>23 DIRECTOR NURU: Thank you, Mr. Pujol.<br/>24 Let me briefly outline the order of business<br/>25 for today. We will begin with the testimony from the<br/>Page 622</p>                                   | <p>1 MR. PRADHAN: This document is a March 22nd,<br/>2 2017 memo to the Waste Management Authority Board, and<br/>3 it will be Exhibit 85.<br/>4 (Exhibit 85, "StopWaste Memorandum [Public],"<br/>5 was admitted into evidence.)<br/>6 MS. DAWSON: As a second matter of<br/>7 housekeeping -- I think it's Exhibit 78, which is the<br/>8 Staff Report. It was pointed out to me that the<br/>9 particular paper versions that were passed out at the<br/>10 last hearing did not have the appendix included in the<br/>11 document, so I have the correct version of the Staff<br/>12 Report; so the only difference here is that the appendix<br/>13 is now included in the document.<br/>14 MR. PRADHAN: So we will use this version of<br/>15 the document including the appendix as Exhibit 78<br/>16 substituting out the old version which did not include<br/>17 the appendix as Ms. Dawson stated.<br/>18 MS. DAWSON: I have it as 78.<br/>19 MR. PRADHAN: I believe it's Exhibit 78.<br/>20 MS. DAWSON: 79 is R3's consulting report.<br/>21 GARTH SCHULTZ,<br/>22 having first been duly sworn,<br/>23 was examined and testified as follows:<br/>24 MS. DAWSON: Jose, when you get the chance,<br/>25 I have something to put on the screen.<br/>Page 624</p>  |
| <p>1 City's financial consultant on analysis related to the<br/>2 proposed refuse rate structure and the evaluation of<br/>3 Recology's revenues and expenses as described in the<br/>4 Staff Report, as well as testimony from Recology on the<br/>5 rate proposal.<br/>6 We will then offer the opportunity for<br/>7 cross-examination by City staff, Recology, and the<br/>8 Ratepayer Advocate. The Companies will have the<br/>9 opportunity to provide additional testimony and evidence<br/>10 in response to the Staff Report.<br/>11 We have a final hearing scheduled for May 3.<br/>12 As in prior hearings, we will reserve the last period of<br/>13 each day for public comment. You may also convey your<br/>14 comments to Ms. Rosie Dilger from the Ratepayer<br/>15 Advocate.<br/>16 Are there any questions? If not, I would like<br/>17 to ask Ms. Dawson of Public Works to call her first<br/>18 witness. Julia, will you please proceed with your first<br/>19 witness.<br/>20 MS. DAWSON: Indeed. I'd like to invite Garth<br/>21 Schultz. But while he's coming up, I have an exhibit<br/>22 that's been requested to be introduced by a member of<br/>23 the public, David Pilpel. It's around the work on the<br/>24 digester in Alameda County. So while Garth is moving<br/>25 his way up here, I'd like to introduce this exhibit.<br/>Page 623</p> | <p>1 EXAMINATION<br/>2 BY MS. DAWSON:<br/>3 <b>Q. Good morning, Mr. Schultz. How are you?</b><br/>4 A. I'm well. Good morning.<br/>5 <b>Q. So I'm going to be up here because there's</b><br/>6 <b>an awful lot of exhibits and I wasn't really sure how we</b><br/>7 <b>would do it any other way.</b><br/>8 <b>But before we get into a discussion of the</b><br/>9 <b>rate structure which is really going to be the bulk of</b><br/>10 <b>the testimony, I did want to touch briefly on the work</b><br/>11 <b>of R3 in regards to both the revenues and expenses of</b><br/>12 <b>the rate application and just an overview of the cost</b><br/>13 <b>drivers.</b><br/>14 <b>This is -- I'm going to go ahead and introduce</b><br/>15 <b>this detail at as a new exhibit, but it also exists in a</b><br/>16 <b>similar form in the Staff Report and also in R3's work.</b><br/>17 <b>But just for ease of reference, I've gone ahead and</b><br/>18 <b>created a separate exhibit.</b><br/>19 MR. PRADHAN: This will be Exhibit 86.<br/>20 (Exhibit 86, "Drivers of Proposed Increase<br/>21 [City]," was admitted into evidence.)<br/>22 BY MS. DAWSON:<br/>23 <b>Q. I'm wondering if you could at least just touch</b><br/>24 <b>briefly, Mr. Schultz, on the kind of work that R3 did</b><br/>25 <b>perform on a review of the revenues and expenses in the</b><br/>Page 625</p> |

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| <p>1 <b>Recology application.</b><br/>2 A. Yes. So as a part of our work for the City<br/>3 on this project, we reviewed the entirety of Recology's<br/>4 rate applications for Recology San Francisco and for<br/>5 Sunset Scavenger/Golden Gate. We reviewed each line of<br/>6 the model that was prepared and presented by the<br/>7 Company, looking at individual lines of expenses and<br/>8 revenues making sure that mathematical assumptions work,<br/>9 that the math throughout the entire document is logical<br/>10 and makes sense and is reasonable. And then for the<br/>11 major categories of cost drivers as well as revenue<br/>12 drivers, working with Recology staff who were responsive<br/>13 to our requests on supporting documentation for things<br/>14 like health care, workers' compensation, insurance<br/>15 factors, salary factors -- really, you know, the<br/>16 background information on which their calculations in<br/>17 the rate application is grounded.<br/>18 <b>Q. And so before I go any further, I should have</b><br/>19 <b>asked you. Can you please kind of introduce yourself</b><br/>20 <b>and describe your professional experience and that of</b><br/>21 <b>your company in refuse rate-setting and your background</b><br/>22 <b>and role overall on the project?</b><br/>23 A. Absolutely. So R3 Consulting Group is a<br/>24 consulting group that exclusively serves municipal<br/>25 agencies on the matters of solid waste and recycling</p> <p style="text-align: right;">Page 626</p> | <p>1 high-level overview meant to show comparisons between<br/>2 the types of drivers within the rate application itself.<br/>3 So "Business as Usual" for us were any of the<br/>4 categories that weren't clearly linked to things like<br/>5 the new landfill agreement, change in composting costs,<br/>6 new programatic costs proposed by Recology in the rate<br/>7 application such as the switch from dual-stream garbage<br/>8 and recycling cling to a single-stream recycling,<br/>9 getting additional capacity for the city.<br/>10 So the "Business as Usual" is really anything<br/>11 that was just standard cost adjustments over time that<br/>12 weren't clearly attributed to some other change.<br/>13 <b>Q. Okay. And then we come to the next category,</b><br/>14 <b>which is "Change in Participation to Existing Programs."</b><br/>15 <b>That's 24% of the increase. Can you describe that a</b><br/>16 <b>little bit?</b><br/>17 A. Yeah. So we liked at the staffing models and<br/>18 the head counts and the costs associated with those that<br/>19 were proposed by Recology, including the rate of change<br/>20 over time since the rate application was -- the last<br/>21 rate application was approved for 2014. And this is<br/>22 something -- these are the categories in which there's<br/>23 been some natural growth due to increases in<br/>24 participation. This includes things like the BIC<br/>25 program, the AMC program, participation in drop-off at</p> <p style="text-align: right;">Page 628</p> |
| <p>1 consulting -- everything from procurements through<br/>2 planning documents, including operational reviews and<br/>3 detailed financial reviews such as this one.<br/>4 Our role here was to assist City staff in the<br/>5 evaluation of the overall rate application to ensure<br/>6 that it was logical, well-calculated, reasonable, and<br/>7 supportable. Our company has 15 years of experience<br/>8 doing this and I've been working in the field 15-plus<br/>9 years myself.<br/>10 <b>Q. Okay, thank you. So we introduced the work</b><br/>11 <b>that you had done in detail as an exhibit in the last</b><br/>12 <b>hearing. And as a result of your work, we did make a</b><br/>13 <b>variety of recommendations. But I think overall you</b><br/>14 <b>could say that with the exception of some of the</b><br/>15 <b>recommendations that we included in the Staff Report,</b><br/>16 <b>that you found Recology's application to be supported</b><br/>17 <b>and with good documentation and assumptions overall?</b><br/>18 A. That's correct, yes.<br/>19 <b>Q. So let's talk a little bit about the drivers</b><br/>20 <b>of the increase here. And you can see from this pie,</b><br/>21 <b>so when you look at the figure here, we can see that a</b><br/>22 <b>large amount of the, increase about 28%, is described as</b><br/>23 <b>"Business as Usual."</b><br/>24 <b>What did that mean from your perspective?</b><br/>25 A. Yes. So when we created this, this was a</p> <p style="text-align: right;">Page 627</p>      | <p>1 the transfer stations, and natural growth within the<br/>2 overall composting, recycling and trash collection<br/>3 sphere.<br/>4 <b>Q. And likely because this has been a period of</b><br/>5 <b>growth for the city as well?</b><br/>6 A. I would say so.<br/>7 <b>Q. Okay. Going to the next category,</b><br/>8 <b>"Implementation of New Programs." What is that entail?</b><br/>9 A. So this category was really linked to the<br/>10 proposed changes by Recology, the addition of the 23<br/>11 additional drivers and routes and trucks for the change<br/>12 in the curbside program implementation as well as other<br/>13 new implementation factors: increases in staffing for<br/>14 BIC and AMC, increases in staffing for outreach and<br/>15 education, other increases in programatic arenas that<br/>16 were clearly laid out within the application.<br/>17 So new changes.<br/>18 <b>Q. Okay. And then "Capital Investments" is</b><br/>19 <b>somewhat self-explanatory. "Composting Costs"?</b><br/>20 A. The composting cost was related to the change<br/>21 in the composting-per-ton rate that Recology pays for<br/>22 the processing of the organic materials. That has gone<br/>23 up, and they explain that within the application that<br/>24 that's due to regulatory changes and constraints on that<br/>25 marketplace.</p> <p style="text-align: right;">Page 629</p>  |

1 **Q. And then the green part, the 20%.**  
2 A. And this is directly related to the change in  
3 the landfill agreement that's been previously explained  
4 by Recology. It did result in a significant increase in  
5 the per-ton tipping rate for landfill material through  
6 the process they explained, but that's a pretty  
7 significant chunk.  
8 **Q. So when we look at all these, if you add about**  
9 **20% of the green, 28% of the blue, 24% of the orange,**  
10 **you know, you end up with about almost 70%. And then,**  
11 **you know, if we would think that the implementation of**  
12 **new programs is also somewhat driven by customer**  
13 **behavior as well as policy, the amount that would be**  
14 **considered more -- I'm not sure if the word**  
15 **"discretionary" is really right, but things that we**  
16 **really have the ability to move around, it seems**  
17 **somewhat limited.**  
18 A. I would say that that's true given the policy,  
19 aims of the City in the goals that Recology's looking to  
20 achieve within this rate application; that's correct.  
21 **Q. Okay, all right. So let's move on to more of**  
22 **a discussion around rate structure. And I am going to**  
23 **actually introduce a slightly-corrected version of an**  
24 **exhibit that is -- was Exhibit 68, which wasn't like it**  
25 **was exactly wrong, but it grouped things differently and**  
Page 630

1 **I think this is a probably more accurate view of the**  
2 **rate distribution between residential and apartment**  
3 **customers.**  
4 MR. PRADHAN: Ms. Dawson, is this  
5 substantively different?  
6 MS. DAWSON: No, it's new. Because the old  
7 one had slightly different groupings. This is just --  
8 MR. PRADHAN: Perhaps we should mark it as an  
9 exhibit?  
10 MS. DAWSON: Yes, please.  
11 MR. PRADHAN: Okay. So this will be 87.  
12 (Exhibit 87, "Percentage Change in Monthly  
13 Rates [City]," was admitted into evidence.)  
14 BY MS. DAWSON:  
15 **Q. Okay. So this exhibit shows a distribution of**  
16 **customer rate increases under Recology's proposed**  
17 **structure, which is a fixed charge of \$20 dollars per**  
18 **unit and then \$10.44 for 32 gallons of trash and \$5.22**  
19 **for each 32 gallons of recyclables and compostables.**  
20 **So I'd like to start by talking about the residential**  
21 **customers; so those are the ones over here on the**  
22 **left-hand side, and talk a little bit about the**  
23 **distributions that we see.**  
24 **So based on the way that the rate increase**  
25 **moves around between different customers, 55% of**  
Page 631

1 **customers are going to experience an effective increase**  
2 **of between either 0% to 16.4%, 9% of customers are**  
3 **actually going to see a rate decrease, and 36% of**  
4 **customers are going to experience a greater than 16.4%**  
5 **increase.**  
6 **I'd like to talk about this in a little bit**  
7 **more detail by introducing another exhibit that was**  
8 **produced by R3, which goes over the summary of these**  
9 **impacts, in particular, for the one-unit customer.**  
10 **And then we're going to spend a little bit more time on**  
11 **the more-than-one-unit customer.**  
12 **So this exhibit includes both.**  
13 MS. DAWSON: Manu, if we could just mark this  
14 as a new exhibit.  
15 MR. PRADHAN: This will be admitted as  
16 Exhibit 88. And this is the "Summary of Rate Impacts by  
17 Account Type" table.  
18 (Exhibit 88, "Summary of Rate Impacts  
19 by Account Type [City]," was admitted  
20 into evidence.)  
21 BY MS. DAWSON:  
22 **Q. So exhibit is two-sided. We're going to focus**  
23 **first on the customers which are one unit. And**  
24 **Mr. Schultz, can you walk us through this table?**  
25 A. Yes. So this is a table we prepared  
Page 632

1 essentially summarizing information from Recology's rate  
2 model they shared with us that indicated how various  
3 groupings of service mixes, which is the second column  
4 in from the left, are impacted by the change in the rate  
5 structure as outlined by Ms. Dawson.  
6 So the current service mix column, it's a bit  
7 coded and so I'll explain it. What that indicates is  
8 the number of units, the size of the trash container  
9 which is the number proceeded by the "T," the size of  
10 the recycling container which is proceeded by "R," and  
11 then the size of the composting container with the "111"  
12 on the end indicating that that's a one-unit customer  
13 with a 96-gallon trash/64-gallon recycling/32 compost,  
14 and they have one container of each. If you see other  
15 codes that indicate a "121" or a "122," that indicates  
16 multiple containers for that specific container type and  
17 size.  
18 So what we sought to do with this is  
19 grouping them by customers with trash container sizes  
20 as indicated on the far left so that customers currently  
21 subscribing to a 96-gallon trash, 64, 32 and 20  
22 respectively. This represents the entirety of the  
23 universe for single-family residential accounts  
24 currently serviced by Recology in San Francisco.  
25 We show the number of accounts, the percentage of total  
Page 633

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| <p>1 accounts, and then the monthly rate they're paying now<br/>2 versus the monthly rate that they would be paying if the<br/>3 rates structure is approved.<br/>4 And then we also further detail whether or not<br/>5 those customers are in a position to reduce their rate<br/>6 by reducing their trash container size, by recycling<br/>7 more or consuming less. Also whether or not they could<br/>8 reduce their rate by optimizing their recycling and<br/>9 composing either by better utilizing the containers that<br/>10 they have already, potentially downsizing those<br/>11 containers as a result of waste reduction, or other<br/>12 strategies.<br/>13 <b>Q. So I notice that you've highlighted one of</b><br/>14 <b>these rows in yellow, and it appears that the biggest</b><br/>15 <b>group of customers who're going to experience a larger-</b><br/>16 <b>than-average rate increase are what we've discussed as</b><br/>17 <b>the small-quantity generators; is that correct?</b><br/>18 A. That is correct. So these are the folks that<br/>19 are currently in the 20-gallon, which is right now the<br/>20 smallest container size. Under the proposal, those<br/>21 folks would continue to receive the 20-gallon size at<br/>22 the 16-gallon rate; so they'll receive a bit of extra<br/>23 trash capacity at no additional cost. They'll actually<br/>24 further receive as via the proposal a \$5-a-month<br/>25 additional credit from Recology proposed for the first</p> <p style="text-align: right;">Page 634</p> | <p>1 currently subscribed to those low container volumes will<br/>2 start to pay more of their fair share, if you will, of<br/>3 the cost of the collection programs and all the other<br/>4 programs that are included in the rates that they pay,<br/>5 not just the collection of material from their curbside.<br/>6 <b>Q. So are there any other big categories of</b><br/>7 <b>customer on this table that stand out, in your view?</b><br/>8 A. I think the other largest categories -- and<br/>9 this is going to comprise 50% of the overall subscriber<br/>10 base for residential services, not just the single-unit<br/>11 services but also the multi-unit residential accounts --<br/>12 would be those who are currently in the 32-gallon trash<br/>13 container size. These are the subscribers that would<br/>14 have the option to migrate to the 16-gallon trash<br/>15 container with an upsize in their recycling containers<br/>16 in particular if they're currently in a 32/32/32. Those<br/>17 folks would receive additional volume at the same rate<br/>18 as if they were to keep their current subscription<br/>19 levels.<br/>20 And it's a big chunk overall, but they're<br/>21 right around the average rate increase of 16%. They<br/>22 further do have potential alternatives accept the<br/>23 downgrade or the downsizing from a 32 to the 16. They<br/>24 could, if they manage the material as well or reduced<br/>25 the amount they produce of recyclables, keep a 32-gallon</p> <p style="text-align: right;">Page 636</p> |
| <p>1 year to mitigate the rate increases they would be<br/>2 receiving.<br/>3 The reason they're highlighted is because<br/>4 they're in the smallest container sizes for each of the<br/>5 three streams. They don't realistically have<br/>6 alternatives to reduce their rate by downsizing or<br/>7 consuming less or producing less waste overall -- with<br/>8 the exception they were share accounts with someone<br/>9 else.<br/>10 <b>Q. Right. Although seeing that this impact is</b><br/>11 <b>happening does kind of reflect the shift that Recology's</b><br/>12 <b>mentioned that trying to move the rate structure overall</b><br/>13 <b>to reflect fixed costs that they incur and not solely</b><br/>14 <b>variable based on volume.</b><br/>15 A. Yes, absolutely. And this is getting closer<br/>16 to that fixed variable balance overall. In the prior<br/>17 rate structure and rate structures in other communities,<br/>18 what we have seen is the fixed costs of the program are<br/>19 largely carried by the larger waste generators. And so<br/>20 this shift, in our opinion, is consistent with what we<br/>21 see happening within the industry. San Francisco is a<br/>22 leader in this. At this point, there aren't many other<br/>23 communities looking at making similar types of changes<br/>24 overall.<br/>25 The result, though, is that the folks who are</p> <p style="text-align: right;">Page 635</p>  | <p>1 recyclable can and potentially save \$5 dollars a month<br/>2 on that charge -- the difference between a 64 and a 32<br/>3 for recycling.<br/>4 <b>Q. So I notice that this exhibit also shows about</b><br/>5 <b>that about between 7% and 8% of single-unit customers</b><br/>6 <b>will pay less under the proposed rate structure.</b><br/>7 <b>What can you tell us about those customers?</b><br/>8 A. Those customer are primarily those in larger<br/>9 trash container sizes -- now the 64 and the 96es. The<br/>10 96-gallon customers will have a mandatory migration from<br/>11 the 96 to the 64. The 96-gallon would no longer be<br/>12 offered; they would be moved to a 64-gallon, and their<br/>13 rate decrease is really consistent with what they would<br/>14 currently save if they were to do that same shift from<br/>15 96 to 64. The rate for the 96-gallon folks, the change<br/>16 in the rate structure isn't driving this as much as just<br/>17 that mandatory migration down to the smaller container<br/>18 size.<br/>19 For the 64-gallon customers, they aren't<br/>20 having any change in their service subscription levels.<br/>21 As a default part of the rate application, these folks<br/>22 will save a bit as well, and that's primarily due to the<br/>23 overall decrease in the volumetric charge for trash in<br/>24 comparison to recycling and composting.<br/>25 <b>Q. Okay. Let's leave the "U-1," one-unit</b></p> <p style="text-align: right;">Page 637</p>   |

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| <p>1 <b>customers, and move on to the table on the other side of</b><br/>2 <b>the exhibit which is kind of a review of customers with</b><br/>3 <b>between two and five units by group.</b><br/>4 <b>Okay. So do you see anything similar between</b><br/>5 <b>the residential customers in one-units with customers in</b><br/>6 <b>two-to-five units?</b><br/>7 A. There's similar overall trends. Although<br/>8 within the service units within two to five range, the<br/>9 impacts are more spread out throughout the various<br/>10 service mixes. There are fewer overall service mixes<br/>11 and significantly fewer number of accounts compared to<br/>12 the single-unit subscribers. The trends are roughly the<br/>13 same in that we see some rate decreases for those in the<br/>14 larger trash container sizes, More steep rate increases<br/>15 for those in the lower waste-generating sizes.<br/>16 But also I think a greater number of<br/>17 alternatives to note will be able to reduce their waste<br/>18 generation and therefore their rate by downsizing from<br/>19 their current trash container sizes or potentially their<br/>20 diversion container sizes by reducing waste or better<br/>21 utilizing the capacity that they have.<br/>22 <b>Q. But again, in terms of what's proposed in the</b><br/>23 <b>rate application, those customers that are using the</b><br/>24 <b>smaller trash size are offered the credit?</b><br/>25 A. Correct. The rate application's calculation</p> <p style="text-align: right;">Page 638</p> | <p>1 well as the multi-unit 2-through-5-unit dwellings. And<br/>2 those are shown on the left of this table. Those<br/>3 service mixes are 32/32/32, 20/32/32, and then further<br/>4 on down the rows with the larger overall container<br/>5 sizes.<br/>6 Taken together, whether they're a single-unit<br/>7 through five-unit, these four service mixes comprise 80%<br/>8 of the overall accounts in place within the city, and<br/>9 those are shown in the "Number of Accounts" column.<br/>10 So what we've done here is simply show the current<br/>11 monthly rate that is charged based on the information<br/>12 we received from Recology and then divided that by the<br/>13 number of units in order to come up with a current<br/>14 monthly rate per unit, indicating that four multi-unit<br/>15 customers on an individual per-unit basis for the same<br/>16 amount of volume of service that they receive at that<br/>17 account, that per-unit cost is a bit less. That said,<br/>18 they do have access to less service overall, but they're<br/>19 also required to have less service overall through the<br/>20 Ordinance.<br/>21 We also then demonstrate what the new monthly<br/>22 rate, and that new monthly rate is calculated based on<br/>23 Recology's rate application proposal and we indicate the<br/>24 service -- the cost of service per unit under that. The<br/>25 trends are that the more units you have for that level</p> <p style="text-align: right;">Page 640</p> |
| <p>1 of the \$5-dollar-per-month credit does, in my<br/>2 calculation, include these apartment customers -- sorry,<br/>3 not apartment customers, these U-2/U-5 customers.<br/>4 <b>Q. Okay. So when we look at the rates, we've</b><br/>5 <b>also talked a little bit about what that might look like</b><br/>6 <b>on not just an account count which is what we're looking</b><br/>7 <b>at here, but more on a monthly rate per unit. And so</b><br/>8 <b>I'd like to go ahead and move to a conversation on that,</b><br/>9 <b>and I have a new exhibit to introduce.</b><br/>10 MR. PRADHAN: That's a chart called<br/>11 "Comparison of Major Service Mixes by Number of Units,"<br/>12 one page. It will be marked as Exhibit 89.<br/>13 (Exhibit 89, "Comparison of Major Service<br/>14 Mixes by Number of Units [City]," was<br/>15 admitted into evidence.)<br/>16 BY MS. DAWSON:<br/>17 <b>Q. So in Recology's testimony, they talked about</b><br/>18 <b>multi-unit accounts in some ways getting a different</b><br/>19 <b>rate than single-family residences when you look at it</b><br/>20 <b>on a per-unit basis. Can you walk us through your</b><br/>21 <b>analysis of this information?</b><br/>22 A. Yes. So in order to investigate that, we<br/>23 looked at the primary service mixes -- current service<br/>24 mixes that are in place now and took the four largest<br/>25 standard service mixes both for single-unit dwellings as</p> <p style="text-align: right;">Page 639</p>   | <p>1 of service, of course, the less it is charged on a<br/>2 per-unit basis.<br/>3 <b>Q. Right. Because you're distributing those</b><br/>4 <b>fixed costs?</b><br/>5 A. You're distributing it over several units;<br/>6 correct.<br/>7 <b>Q. So among these multi-unit accounts, are there</b><br/>8 <b>any other big customer types that stand out by being</b><br/>9 <b>either above or below the average increase?</b><br/>10 A. Yes. And I think this chart and the prior<br/>11 chart in our table both show that within the multi-unit,<br/>12 we see three main categories that are of a larger<br/>13 overall subscription basis. So we've got three<br/>14 categories that are above 2000 accounts apiece. Most of<br/>15 the other categories, the service mix categories have<br/>16 many fewer accounts that are subscribed.<br/>17 So the primary ones are two-unit accounts.<br/>18 In fact, these are all two-unit account categories, some<br/>19 with a 64 trash, 64 recycling, and 32 organics. Their<br/>20 rate increase is less than the average at \$12 dollars<br/>21 per month and they do have further options within that<br/>22 to potentially downsize by reducing their consumption as<br/>23 well as better utilizing organics and recycling.<br/>24 There's another category of subscriber there<br/>25 increasing by \$19 dollars a month. That's going to be</p> <p style="text-align: right;">Page 641</p>  |

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| <p>1 above the 16.4% average rate increase, and these are<br/>2 folks who are currently in a 32/64/32. These customers<br/>3 would have the opportunity to move to the 16-gallon<br/>4 trash and keep their 64-gallon recycling. They could<br/>5 further reduce their rate by reducing their recycling<br/>6 subscription by better utilizing it or reducing<br/>7 consumption.<br/>8 And then there's a final category, two-unit<br/>9 customers that are currently in the 32/32/32 combination<br/>10 whose rates will increase by \$20 dollars a month.<br/>11 That's also above the 16.4% average.<br/>12 <b>Q. Okay.</b><br/>13 A. There are other -- that's about 7,000 of the<br/>14 18,000 overall multi-unit accounts, but there aren't any<br/>15 other large categories that stand out in quite this way.<br/>16 <b>Q. Okay, great. So when we've been discussing</b><br/>17 <b>the rates over the last month or so, we've heard a lot</b><br/>18 <b>of concern from the public and the Ratepayer Advocate</b><br/>19 <b>about the increase and the fixed unit charge from \$5</b><br/>20 <b>dollars to 20. And so I'd like to at least kind of go</b><br/>21 <b>through or review the detailed work that R3 performed</b><br/>22 <b>and is reflected in a brief discussion in the Staff</b><br/>23 <b>Report and more fully in their exhibit.</b><br/>24 <b>But I've extracted the pages that we're going</b><br/>25 <b>to go through and I would like to go ahead and introduce</b><br/>Page 642</p>                                       | <p>1 understand how much does the unit charge change affect<br/>2 the distribution overall.<br/>3 Then the other variables we looked at were --<br/>4 the current rate proposal has a 2:1 ratio of trash to<br/>5 recycling or composting volumetric charges whereas the<br/>6 ratio right now is 12:1; so we looked at other ratios<br/>7 within this. Really, we kept the half, the 2:1 ratio<br/>8 for one portion of this analysis and then we looked at a<br/>9 3:1 ratio. We also -- and it's not included in this<br/>10 table -- looked 4:1, 5:1, 6:1, 7:1 ratios overall. And<br/>11 you can see the distribution of what would be the unit<br/>12 charge or the volumetric rates are included within this.<br/>13 So you can see at the very top row the various per-unit<br/>14 rates, and then in the middle sections, various options<br/>15 that were at least evaluated for the purposes of our<br/>16 report to the trash volumetric rate and the diversion<br/>17 volumetric rates.<br/>18 <b>Q. So let's talk a little bit about more of the</b><br/>19 <b>distribution of the rate increases of the scenarios that</b><br/>20 <b>you looked at. So this is a figure that kind of shows</b><br/>21 <b>it in graph form what those distributions look like.</b><br/>22 <b>Can you speak to this a little bit?</b><br/>23 A. Yes, and we were a little surprised by this<br/>24 outcome. This is just for the four alternatives that<br/>25 were on the prior table. We saw very similar trends to<br/>Page 644</p> |
| <p>1 <b>this as an additional exhibit just for ease of review.</b><br/>2 MR. PRADHAN: This document is three pages of<br/>3 tables. It will be admitted as Exhibit 90.<br/>4 (Exhibit 90, "Alternative Rate Structure<br/>5 Scenario [City]," was admitted into evidence.)<br/>6 BY MS. DAWSON:<br/>7 <b>Q. So what we've done is pull these figures</b><br/>8 <b>directly from the report that was produced by R3 and</b><br/>9 <b>introduced into evidence in the last meeting. So as</b><br/>10 <b>part of the rate review and the work that we've been</b><br/>11 <b>doing, we did look at whether there were alternative</b><br/>12 <b>rate structures that had different outcomes or different</b><br/>13 <b>or more even distributions between customers.</b><br/>14 <b>So I'd like to go ahead and start with this</b><br/>15 <b>first table, which is Table 20 on page 65 of your</b><br/>16 <b>detailed report, and it shows a number of alternative</b><br/>17 <b>rate structures that R3 evaluated as part of its work.</b><br/>18 <b>Can you please walk us through this table?</b><br/>19 A. Yeah, sure. So what this indicates is we<br/>20 tested a couple different variables, and this is just a<br/>21 representation of what we adjusted within those variable<br/>22 sets. But the variables to play with were what was the<br/>23 per-dwelling-unit rate. It's currently at \$5; it's<br/>24 proposed at \$20. We looked at a couple midpoints along<br/>25 that range, \$10 and \$15 dollars and change, just to<br/>Page 643</p> | <p>1 this graphically when we looked at other combinations as<br/>2 well. But ultimately, the basic distribution of which<br/>3 customer accounts and how many customer accounts are<br/>4 experiencing what level of rate increase is relatively<br/>5 similar throughout the various combinations. You end up<br/>6 with a high number of accounts that are experiencing a<br/>7 rate increase right at around the average rate increase,<br/>8 and then a consistent bump in accounts more around the<br/>9 30% range that are also, you know -- let me rephrase<br/>10 that.<br/>11 A number of accounts -- a high number of<br/>12 accounts that are experiencing rate increases in the 30%<br/>13 range, in that very slightly depending upon the<br/>14 scenario, but what we were not able to do effectively<br/>15 via our playing with the values included in the rate<br/>16 structure was eliminate this impact to the customers<br/>17 experiencing that higher 30% or increase.<br/>18 <b>Q. And then higher, what we've been calling</b><br/>19 <b>internally the "double bump," that really reflects again</b><br/>20 <b>the low-waste generators just like the proposed rate</b><br/>21 <b>structure?</b><br/>22 A. Correct. It's the low-waste generators and<br/>23 it's also this move towards including more fixed costs<br/>24 in the cost of service. Any increase in the per-unit<br/>25 rate to reflect that fixed cost helps keep that double<br/>Page 645</p>  |



1 bump there.  
2 **Q. Right. Even if it's smaller than what's**  
3 **proposed?**  
4 A. Correct.  
5 **Q. Okay. So this sort of follow-on table which**  
6 **is in your report kind of just shows for the most**  
7 **significant number of kind of customer accounts types.**  
8 **Why don't you walk us through this table.**  
9 A. Yeah. So for the three main categories of  
10 account types comprising that nearly 60% or so of  
11 overall accounts, when we looked at the alternatives,  
12 so the "Proposed" column is the percent rate increase  
13 that would be experienced by that specific service mix.  
14 When we worked to adjust some of the alternatives and  
15 play with some alternative scenarios, the overall  
16 increase to that specific service mix wasn't that far  
17 out of line with what their proposal is. We see some  
18 increases in certain scenarios, some decreases in  
19 certain scenarios for certain service mixes. But  
20 overall, the overall trend is very similar, again,  
21 regardless of the specific adjustments that we were  
22 evaluating to the per-unit fee or the per-unit charge  
23 and the volumetric charges.  
24 **Q. Right. Again, so we've pretty much found this**  
25 **similar structure, similar impact?**

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1 A. Yes, exactly. Similar structure, similar  
2 impacts. And I think that one of the things that was  
3 notable in terms of our evaluation of working with the  
4 different charges, and this is something that Recology  
5 represented as kind of "finding the sweet spot."  
6 We were able to somewhat reproduce that in that we able  
7 to see the largest number of customers at around the  
8 average rate increase via what they proposed. I didn't  
9 find another alternative that I thought worked better.  
10 **Q. Right. So that distribution really is about**  
11 **as optimal as we can be given policy direction that**  
12 **we're trying to achieve of de-emphasizing the trash and**  
13 **reflecting the true cost of service?**  
14 A. I believe so, yes.  
15 **Q. So you know, I'm sure that it's possible a**  
16 **kind of question like this would come up. Well, a more**  
17 **straightforward approach is why don't you just increase**  
18 **every rate component by the percentage that's needed to**  
19 **cover the cost, like the 16.4% average? And then every**  
20 **customer experiences the same increase. But we're doing**  
21 **that and we talked about it a little bit, but I'm**  
22 **wondering given your experience in the industry whether**  
23 **you could speak to that a little.**  
24 A. Yeah, so many jurisdictions will simply take a  
25 rate increase and apply it evenly to all container

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1 types, all customer types, and it does a couple of  
2 things. One it does, it increases the gap between the  
3 rate for a lower waste generator that has a lower rate  
4 and a higher waste generator that has a higher rate.  
5 That gap continues to grow if you apply the rate  
6 increase consistently across, it's the same way that we  
7 see income caps grow in that same way.  
8 So when you apply it evenly, you have a gap  
9 that grows between the lower rates and the higher rates.  
10 And even within most of those rate structures, currently  
11 including the City's current rate structure, is that  
12 there isn't a closely-correlated alignment between the  
13 rates people pay and the fixed cost of service, and  
14 that's been Recology's argument. If you apply the rate  
15 evenly in that way, you're only further growing that  
16 disparity so that you have the lower waste generators,  
17 the lower ratepayers not paying as close to a fair share  
18 component of the fixed costs and the higher waste  
19 generators bear more and more of that if you apply rates  
20 in that way.  
21 We do see that there are many jurisdictions  
22 throughout California and the Bay Area in particular  
23 that are working to adjust their rate structures and  
24 modify them to achieve aims similar to what's being  
25 sought here. Those are -- they apply some different

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1 strategies. This strategy, I think, is the most direct  
2 and I think actually fairly transparent, and it is a bit  
3 ahead of the curve in terms of what we're seeing for  
4 other communities.  
5 **Q. Okay. So let's talk a little bit more about**  
6 **the fixed cost piece. We did touch a little bit at the**  
7 **beginning more on what's driving the rate increase, but**  
8 **I do want to talk about -- Recology has stated in their**  
9 **evidence that a significant portion of their collection**  
10 **and processing costs are fixed. That is, they don't**  
11 **change regardless of the actual volume of material**  
12 **collected. So I'd like to ask you just a few more**  
13 **questions around this topic, and I would like to**  
14 **refer -- and I'm not going resubmit it -- Exhibit 43,**  
15 **which was submitted by Recology, and the particular**  
16 **exhibit was titled "Fixed vs. Variable Cost Analysis"**  
17 **and it was prepared by Armanino.**  
18 **Did you look at that report? And can you kind**  
19 **of summarize what your professional view is of that**  
20 **report?**  
21 A. Yes, we did. And I do have it in front of me  
22 here. What it summarizes is there's approximately a 60%  
23 to 62% portion of the Companies' costs that are  
24 attributed as fixed, and about 38% -- and I'll round up  
25 to 40% or so -- that are variable costs. You know, I've

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|   |   |
|---|---|
| <p>1 looked at the specific categories that are included as<br/>2 being fixed versus variable, and in fact the methodology<br/>3 for some specific line items apportions them between<br/>4 fixed and variable based on some formulas that are<br/>5 outlined within the report.<br/>6 And the end result, this 60% fixed and<br/>7 40% variable, is not out of line with what we see in<br/>8 other detailed rate reviews like this and in other just<br/>9 jurisdictions and also in our own experience having<br/>10 worked in and managed operations -- albeit them smaller<br/>11 scale operations to Recology's -- but certainly it's in<br/>12 alignment with our understanding of what the real cost<br/>13 of doing business in the industry is.<br/>14 <b>Q. Okay. And so one just kind of final point on</b><br/>15 <b>this topic. Turning back to the application itself, in</b><br/>16 <b>the narrative summary Recology talks about 32 programs</b><br/>17 <b>that it currently operates in San Francisco between</b><br/>18 <b>collection companies Sunset Scavenger and Golden Gate</b><br/>19 <b>and the processing and disposal company which we'll call</b><br/>20 <b>Recology San Francisco.</b><br/>21 <b>So based on the description in the application</b><br/>22 <b>itself, do you think it's reasonable to conclude that</b><br/>23 <b>the cost of some of these programs are essentially fixed</b><br/>24 <b>costs and they don't vary with the amount in volume of</b><br/>25 <b>materials collected and processed?</b></p> <p style="text-align: right;">Page 650</p> | <p>1 <b>disposal of certain items and also accessible services</b><br/>2 <b>to the public when they need to go to the transfer</b><br/>3 <b>stations, for instance.</b><br/>4 A. Correct. And then that would be reflected in<br/>5 the fixed charge components of their rates.<br/>6 MS. DAWSON: Okay. Those are all the<br/>7 questions that I have.<br/>8 DIRECTOR NURU: Okay.<br/>9 MS. DAWSON: And I'd like to offer --<br/>10 DIRECTOR NURU: Thank you, Ms. Dawson.<br/>11 I would like to invite Recology to have the<br/>12 opportunity to cross-examine. Mr. Baker, would you like<br/>13 to --<br/>14 MR. BAKER: Yes.<br/>15 We would like to get organized.<br/>16 EXAMINATION<br/>17 BY MR. BAKER:<br/>18 <b>Q. Good morning, Mr. Schultz.</b><br/>19 A. Good morning.<br/>20 <b>Q. So you -- I didn't catch it, but you said you</b><br/>21 <b>personally have been working for R3 in this business for</b><br/>22 <b>how long?</b><br/>23 A. I have been personally with R3 for two-and-a-<br/>24 -half years now.<br/>25 <b>Q. But you've worked in this field before?</b></p> <p style="text-align: right;">Page 652</p>  |
| <p>1 A. I would say that's accurate. I think that the<br/>2 costs will vary slightly within accordance to the amount<br/>3 of material they're processing. But just to operate<br/>4 those programs and to plan for that variability, you<br/>5 need the a base level infrastructure and staffing and<br/>6 other costs within that. And realistically, the<br/>7 variation that we talk about in terms of program<br/>8 participation and things like Household Hazardous Waste<br/>9 and others is somewhat minimal in comparison to the<br/>10 overall amount that they're handling. You may see<br/>11 variations swinging month-to-month of season-to-season,<br/>12 but if folks were to not produce any of that stuff, yes,<br/>13 we would have a true variable cost there that we could<br/>14 adjust over time.<br/>15 But given reasonably-consistent participation<br/>16 levels or even increasing participation levels, the base<br/>17 costs of the infrastructure and the staffing to keep<br/>18 those programs available and accessible for customers is<br/>19 essentially a fixed basis. You've got to keep it open<br/>20 at the hours that are agreed to and staff it during<br/>21 those hours and pay the cost of the infrastructure and<br/>22 the utilities just to have that as an available<br/>23 resource.<br/>24 <b>Q. Right. And those programs are available to</b><br/>25 <b>all customers and kind of support the responsible</b></p> <p style="text-align: right;">Page 651</p>   | <p>1 A. I worked in the solid waste field since 2000<br/>2 and have been involved in operations, implementation,<br/>3 outreach education, finance and reviews, rate setting<br/>4 and the like, including for local governments.<br/>5 <b>Q. And very briefly, tell us what you did in this</b><br/>6 <b>field from 2000 up until a couple years ago when you</b><br/>7 <b>joined R3.</b><br/>8 A. I worked in operations for a private company<br/>9 for a year. I worked in smaller university-based<br/>10 operations for four years. I worked for the City of<br/>11 El Cerrito as a solid waste manager responsible for all<br/>12 things solid waste and recycling for eight years.<br/>13 <b>Q. So you've seen this business from several</b><br/>14 <b>different angles and for a number of years?</b><br/>15 A. Correct.<br/>16 <b>Q. Let me ask you a couple questions about your</b><br/>17 <b>various tables, which are impressive in terms of</b><br/>18 <b>breaking the information down. It's very helpful.</b><br/>19 <b>If you could look at Exhibit 88, and in</b><br/>20 <b>particular the page that talks about the single-family</b><br/>21 <b>homes. And you have in here dividing it up essentially</b><br/>22 <b>by the trash container size; correct? 96, 64, 32, and</b><br/>23 <b>20?</b><br/>24 A. Correct.<br/>25 <b>Q. Currently, what sort of price break do single-</b></p> <p style="text-align: right;">Page 653</p> |

1 **-family homes that have 20-gallon trash containers as**  
2 **opposed to 32-gallon containers receive?**  
3 A. Based on the information here, it's around \$10  
4 to \$12, \$14 dollars depending upon their service mix.  
5 **Q. And that's per month?**  
6 A. Yes.  
7 **Q. So that would be -- we're talking about a**  
8 **savings for the 20-gallon users of \$120 to \$150 dollars**  
9 **a year?**  
10 A. That sounds like an appropriate range.  
11 **Q. And that program that is the ability of**  
12 **single-family homes to get 20-gallon trash as opposed**  
13 **to 32, that's been in effect for a number of years.**  
14 **Is that your understanding?**  
15 A. That is my understanding, though I don't know  
16 the exact dates of implementation.  
17 **Q. I think it goes back to 2001, but I'm not**  
18 **testifying; I've I got to check it and I may be wrong.**  
19 **But it goes back several years, would you agree with**  
20 **that?**  
21 A. Yes.  
22 **Q. So that means that those pioneers, so to**  
23 **speaking, who have reduced the size of their trash**  
24 **containers have been enjoying a savings on the range of**  
25 **\$120 to \$150 dollars a year for a number of years;**  
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1 **correct?**  
2 A. In comparison to the 32-gallon equivalents,  
3 yes, that's correct.  
4 **Q. Now under the new proposed rates, as you**  
5 **pointed out, the 20-gallon users can keep their**  
6 **20-gallon container and, in effect, have four extra**  
7 **gallons of trash capacity compared to those customers**  
8 **who go to 16; correct?**  
9 A. Correct.  
10 **Q. And by subscribing to that service, they will**  
11 **continue to get a price break over those customers who**  
12 **have 32-gallon trash containers; is that right?**  
13 A. Well, no one would have 32 anymore under this  
14 scenario.  
15 **Q. Well, if you -- a customer is entitled to keep**  
16 **their current containers, I think; isn't that right?**  
17 A. That was not my understanding.  
18 **Q. Okay. Well, on your chart you have prices for**  
19 **new monthly rates for folks who continue to have**  
20 **32-gallon trash service; correct?**  
21 A. If you look in the "Notes" side column on the  
22 very right-hand side, these rates are based on the  
23 assumption of a 32 moving to a 16 overall.  
24 **Q. Okay. So let me just ask you to assume that**  
25 **you're wrong and that a customer who currently has**  
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1 **32 gallons of trash in a single-family home is going to**  
2 **be allowed to keep that 32-gallon container.**  
3 A. Now that I'm recalling, yes. They can opt out  
4 of the program overall. But these rates here are shown  
5 at the opt-in basis, which would be moving from the 32  
6 to the 16 with a bump to a 64-gallon recycling if they  
7 have a 32 currently.  
8 **Q. Right. But focusing again on our 22-gallon**  
9 **pioneers here, if they keep their 22-gallon container --**  
10 **pardon me. If they their 20-gallon container, they will**  
11 **continue to pay less than those customers who opt out**  
12 **keep that 32-gallon container?**  
13 A. Correct, yes.  
14 **Q. Let me ask you a couple of questions --**  
15 **actually, more than a couple -- of questions in a couple**  
16 **of areas that Ms. Dawson did not ask you about that are**  
17 **addressed in the R3 report and also in the Staff Report.**  
18 **The first has to do with lease rates on capital assets.**  
19 **You did an analysis of that; correct?**  
20 A. We reviewed the lease rates and the  
21 calculations from Recology to ensure reasonableness and  
22 consistency with policy.  
23 **Q. And as you know, there's been some discussion**  
24 **during these hearings of how to expense capital assets,**  
25 **whether lease financing is appropriate versus**  
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1 **depreciation, and you address that question in your**  
2 **report as well, did you not?**  
3 A. Well, we understood ultimately from our  
4 discussions with Recology on that that the lease rate  
5 approach for these large capital asses was really the  
6 only methodology that they were able to use at this  
7 point and not the depreciation approach that was  
8 originally included -- and that the rationale to us was  
9 appropriate.  
10 **Q. In other words, the rationale that Recology**  
11 **gave for using lease financing was appropriate in your**  
12 **opinion?**  
13 A. Correct.  
14 **Q. And you did that analysis -- I'm looking on**  
15 **page 49 of your report which is Exhibit 79, you did that**  
16 **analysis first of all with regard to capital assets such**  
17 **as trucks and other pieces of equipment?**  
18 A. Correct.  
19 **Q. And you noted there the 2006 Director's Report**  
20 **which made a thorough review at that time of lease**  
21 **financing; correct?**  
22 A. Correct.  
23 **Q. And that -- and you also note that in 2006**  
24 **that the Director's Report indicated that for lease**  
25 **financing to pass muster, it had to satisfy certain**  
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1 **criteria; correct?**  
2 A. Correct, including the non-application of  
3 profit by Recology's intercompany leasing entity.  
4 **Q. In other words, that the leasing entity would**  
5 **not earn any profit?**  
6 A. Correct.  
7 **Q. And also that the leases would be at**  
8 **competitive comparable market rates; correct?**  
9 A. Correct, with benchmarking and certain  
10 indicators within the marketplace.  
11 **Q. And in your review, you determined that the**  
12 **capital assets that were expensed through lease**  
13 **financing in the application in 2017 met the criteria**  
14 **that had been laid out by the Director in 2006?**  
15 A. Yes. What was provided by Recology was an  
16 indication of how the lease rates were calculated on a  
17 month-to-month basis as well as how those projections of  
18 leasing costs were established based on 24-month rolling  
19 average of those lease rates -- prior 24-months rolling  
20 average. So it's based on recent history and then  
21 using that recent history to project what the leasing  
22 rates were going to be for those leased assets in  
23 the application.  
24 **Q. Now as you know, the application also includes**  
25 **some large development projects, namely the West Wing,**  
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1 **a new iMRF, and black bin processing. And so there's**  
2 **been discussions to whether lease financing is**  
3 **appropriate for the capital costs of those facilities as**  
4 **opposed to depreciation expensing.**  
5 **And what did you conclude on that score?**  
6 A. We conclude that we believe it's appropriate.  
7 We certainly see that this is a cost that does require  
8 financing. When discussing that with Recology staff,  
9 we understood that in order to recover the cost that  
10 they will incur on the financing, that they need to  
11 treat it in a certain way that's not inconsistent with  
12 what I've seen and what R3 has seen in other agencies.  
13 And so to us, it makes sense now that we understand the  
14 background for it. I'll leave it at that.  
15 **Q. Well, I can't really remember what I was going**  
16 **to ask you next, but if I stand here long enough, I'll**  
17 **think of it.**  
18 **So why don't you keep your report open to the**  
19 **pages, because I'm going jump back to that.**  
20 A. I'm trying to access it right now.  
21 **Q. But I want to also look at the Staff Report,**  
22 **which is Exhibit 78. And in the Staff Report, there is**  
23 **also a discussion of this question of lease financing**  
24 **for the West Wing and the two Contingent Schedules.**  
25 **And the first mention of that, I think, is on page 22 of**  
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1 **the Staff Report. Do you have that?**  
2 A. I do.  
3 **Q. And in particular, if you look at the last**  
4 **paragraph of the section on the West Wing, section 8.2,**  
5 **it looks like the second sentence. It says:**  
6 **"Staff requests that Recology provide**  
7 **further justification demonstrating their need**  
8 **for this change in financial treatment and to**  
9 **certify that the leases are booked at market-**  
10 **-comparable rates with zero profit accruing to**  
11 **Recology's leasing company as was recommended**  
12 **in the 2006 Director's Report for Future Rate**  
13 **Applications."**  
14 **Now since the issuance of the Staff Report,**  
15 **there's been a letter from the CFO of Recology that you**  
16 **actually referred to in your report, I believe, which**  
17 **has also been marked as an exhibit.**  
18 **So my question to you is from your review and**  
19 **your knowledge of this area, you think that Recology has**  
20 **provided sufficient justification demonstrating the need**  
21 **for use of lease financing for the expensing of the**  
22 **costs of these three capital projects? Or do you think**  
23 **anything further needs to be provided by Recology?**  
24 A. I believe that in terms of the discussions  
25 we've had and the conversations that I've had with  
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1 Recology staff, it's understandable and reasonable.  
2 What I have not seen is something introduced  
3 into the public record that justifies that more  
4 explicitly. But in my opinion, based on the  
5 conversations we've had and the understanding, I'm  
6 comfortable with the approach that's being proposed  
7 using the lease financing.  
8 **Q. So if we want to make sure that the public**  
9 **record contains the same assurances that have satisfied**  
10 **you, what more do you believe needs to get into the**  
11 **public record?**  
12 A. I would recommend some sort of written  
13 explanation detailing why it was changed from the  
14 depreciation to the lease financing. That, to my  
15 knowledge, hasn't really been introduced yet, but I  
16 think that that's sort of an explanation detailing it  
17 from Recology's point of view would be helpful in  
18 further establishing the reasonableness.  
19 **Q. And from your review of this matter, what's**  
20 **your understanding as to what it's been changed from**  
21 **depreciation to lease financing?**  
22 A. Good question. And my understanding is that  
23 it was, one, potentially inconsistent with some of  
24 Recology's past practice to include it as depreciation  
25 via this rate application and not as a lease financing  
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1 mechanism; and that two, from working with the folks  
2 that are actually providing the leasing and the  
3 financing, that Recology needed to be able to  
4 demonstrate that they can recover the interest leasing  
5 expense or the interest expense of those financed  
6 capital investments. And that wasn't done through the  
7 depreciation approach because depreciation is simply  
8 recovering the principal component of those investments.  
9 **Q. And that's a pretty good summary of exactly**  
10 **what your report states on page 53, Exhibit 79, in the**  
11 **three bullet-points under 6.2.1. Would you agree?**  
12 A. I'll get that open to you.  
13 What page again?  
14 **Q. Page 53.**  
15 A. Yes, that is a summary of what I stated.  
16 **Q. And I believe this information may have come**  
17 **from conversations that you had with folks at Recology,**  
18 **in particular John Porter would be the person?**  
19 A. That is correct.  
20 **Q. But Mr. Porter testified to that as well**  
21 **during the early hearings. I thought you were there.**  
22 **Maybe you didn't hear it.**  
23 A. I was. Even during the testimony it remained  
24 a bit unclear to us and the staff. But since that  
25 testimony and via the further conversations, we gained  
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1 a further understanding leading to what we've written  
2 here.  
3 **Q. So to make sure we've tied it all up in a bow,**  
4 **from your standpoint, if we go to get Mr. Porter up**  
5 **there on the stand again and explain this in further**  
6 **detail, and then to the extent you have any questions,**  
7 **Ms. Dawson, anybody has any questions, they can ask them**  
8 **then and make sure we got everything on table?**  
9 A. That sound appropriate to me.  
10 **Q. Very good, thank you.**  
11 **So let me -- there's actually one other area**  
12 **I wanted to ask you about which Ms. Dawson did not ask**  
13 **you about and that has to do with the recommendation**  
14 **both of R3 and the staff, that Recology not earn O.R.**  
15 **on composting tip fees. And I think you know what**  
16 **Recology's argument is on that; you stated it --**  
17 **summarized it in your report, but let's dig into it just**  
18 **a little bit.**  
19 **Would you agree with me that in business, a**  
20 **higher profit margin is sometimes appropriate when we're**  
21 **talking about a venture which has risks to it?**  
22 A. You know, I'm not a businesses analyst. And I  
23 think that the statement makes sense, but that's not  
24 something I generally have firm opinion about.  
25 **Q. Okay. But based on your general knowledge and**  
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1 **experience of businesses and the work that you've done,**  
2 **would you agree it's sometimes the case that to motivate**  
3 **businesses to invest in something that's not certain,**  
4 **a higher potential profit is sometimes offered as an**  
5 **inducement?**  
6 A. We do see that in the arrangements and  
7 agreements and contractual relationships that we review  
8 or often help broker. Yes, we do see applications like  
9 that generally with respect to increasing the diversion  
10 programs.  
11 **Q. And so as you know, Recology draws the**  
12 **contrast between landfill disposal on the one hand and**  
13 **composting on the other hand; so let's just talk about**  
14 **that a little bit. Because you do have experience in**  
15 **those areas --**  
16 A. Correct.  
17 **Q. -- in particular, to see what you think about**  
18 **that. Would you agree from a regulatory standpoint that**  
19 **landfill disposal is a more mature, more settled area**  
20 **than composting?**  
21 A. Yes, I would agree with that.  
22 **Q. And would you also agree that that's true with**  
23 **regard to operational techniques, namely that landfill**  
24 **operations are more developed, more settled than**  
25 **composting, which is a bit newer?**  
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1 A. I would reframe it a bit and say that landfill  
2 technologies are largely similar to what they have been  
3 in the past and there's been moderate changes. But yes,  
4 it is true that the composting industry at this point in  
5 time is undergoing some change in response to changes in  
6 demand as well as changes in the regulatory sphere.  
7 **Q. And I liked your reframing of it.**  
8 **Landfilling is you dig a hole and put garbage**  
9 **in it, put something on top; and composting's ab bit**  
10 **more complicated.**  
11 A. It's been developing and changing over time.  
12 It has been becoming more mature; that's correct.  
13 **Q. And I don't know whether your work included**  
14 **this, but since the 2013 rate hearings here in**  
15 **San Francisco, there have been some significant**  
16 **regulatory changes that have occurred in the composting**  
17 **area that have increased operating cost.**  
18 **Is that your understanding?**  
19 A. That is our understanding.  
20 **Q. And are you aware of any similar changes in**  
21 **the landfill area?**  
22 A. No, I am not.  
23 **Q. And would you also agree that it's possible**  
24 **that in the near future we could see more regulatory**  
25 **changes in the composting area that could also add**  
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|   |   |
|---|---|
| <p>1 <b>costs?</b><br/>2 A. I think it's possible. What I'm aware of at<br/>3 this point is that many of the regulatory changes that<br/>4 have been pushed by regulatory agencies are currently<br/>5 being adjusted and adopted to; so I can't forecast what<br/>6 the additional ones might be, but we know that there are<br/>7 some that are being responded to now by composting<br/>8 operations.<br/>9 <b>Q. And is it also true that some innovation is</b><br/>10 <b>occurring in the processing of composting? People</b><br/>11 <b>trying new things; some are working, some aren't?</b><br/>12 A. True.<br/>13 <b>Q. So this rate application, as you understand,</b><br/>14 <b>covers what period of time?</b><br/>15 A. From rate year 2018 through '21/'22.<br/>16 <b>Q. And if regulatory changes, if processing</b><br/>17 <b>changes, if processing experiments fail, et cetera, and</b><br/>18 <b>Recology starts to lose money in the composting area,</b><br/>19 <b>who bears that risk?</b><br/>20 A. Recology does.<br/>21 <b>Q. And because the composting tip fee is being</b><br/>22 <b>established as part of this rate application to apply</b><br/>23 <b>going forward subject to COLA; correct?</b><br/>24 A. Correct. Our understanding, however, also is<br/>25 that that tip fee does include a profit component for</p> <p style="text-align: right;">Page 666</p>   | <p>1 that's including the per-tip fee really should be<br/>2 established in order to cover that cost and that<br/>3 restriction.<br/>4 What we see in other agencies and we see<br/>5 references to in prior Director's Reports is that these<br/>6 outside handling of materials, when those are subject to<br/>7 profit of their own including the costs paid by the<br/>8 company, in our opinion, aren't really appropriate for<br/>9 profit at the collection company level. For the reasons<br/>10 I explained, we believe it's more appropriate to have<br/>11 the profit at the composting operation cover that risk<br/>12 if that risk is really there, and we don't see that it's<br/>13 appropriate to have the profit on something that already<br/>14 includes a profit component.<br/>15 And that's an opinion and a policy position<br/>16 that R3 has in our engagements with clients and that's<br/>17 consistent with what we recommended in other<br/>18 jurisdictions.<br/>19 <b>Q. You recognize, though, that the collection</b><br/>20 <b>companies -- Golden Gate, Sunset, and also Recology</b><br/>21 <b>San Francisco, the processing company -- are separate</b><br/>22 <b>entities from the Hay Road and Blossom Valley</b><br/>23 <b>composters; correct?</b><br/>24 A. Yes, correct.<br/>25 <b>Q. And so the Hay Road Organics and Blossom</b></p> <p style="text-align: right;">Page 668</p>   |
| <p>1 the Recology affiliate that handles the composting<br/>2 operations.<br/>3 <b>Q. Right. And that's why we're having this</b><br/>4 <b>discussion.</b><br/>5 A. Right.<br/>6 <b>Q. So I guess the question is, going back to our</b><br/>7 <b>original premise here, which is that greater risks</b><br/>8 <b>sometimes warrants a larger profit margin because of the</b><br/>9 <b>risk that actually money will be lost and you won't be</b><br/>10 <b>making any profit at all.</b><br/>11 <b>Why is that not appropriate in this situation?</b><br/>12 <b>In other words, there is a profit component at the</b><br/>13 <b>composting subsidiary level. We're talking about an</b><br/>14 <b>O.R. at the collection rate level, the effect it means</b><br/>15 <b>for the affiliated companies a larger profit margin on</b><br/>16 <b>composting than others.</b><br/>17 <b>Why is that not appropriate given the fact</b><br/>18 <b>that the composting provides unique challenges and</b><br/>19 <b>unique risks as compared to the other operations?</b><br/>20 A. Yes. Our viewpoint on this is that having<br/>21 profit handled in that way, one, can open the door for<br/>22 some lack of clarity in the future; two, does create<br/>23 additional rewards if some of the changes that we<br/>24 discussed don't come to pass. Additionally, our<br/>25 viewpoint is that the profit at the composting operation</p> <p style="text-align: right;">Page 667</p> | <p>1 <b>Valley can charge the collection companies and Recology</b><br/>2 <b>San Francisco whatever they want; correct? I mean,</b><br/>3 <b>these proceedings are not going to contain that?</b><br/>4 A. Well, and I don't understand and have the<br/>5 knowledge of how Recology would negotiate those rates<br/>6 between those different entities. One thing I am aware<br/>7 of, though, that if for some reason -- and this is<br/>8 consistent with one of the alternatives that have been<br/>9 discussed previously with respect to the Contingent<br/>10 Schedules -- is that if Recology does see an undue<br/>11 increase in that cost component of their operation,<br/>12 there is the opportunity to come back and adjust that<br/>13 through a future rate application process which would be<br/>14 anticipated in four or five years, based on the current<br/>15 schedule that the rate applications have been considered<br/>16 on.<br/>17 <b>Q. But in the meantime, Recology bears the risk</b><br/>18 <b>of unpredictability?</b><br/>19 A. And of managing that with their affiliates.<br/>20 <b>Q. Have you considered the possibility of the</b><br/>21 <b>collection companies and Recology San Francisco still</b><br/>22 <b>earning an O.R. to compensate for the increased risk but</b><br/>23 <b>having it be a reduced O.R. as compared to the standard</b><br/>24 <b>that applies to the entire application?</b><br/>25 A. That's a good question. We haven't</p> <p style="text-align: right;">Page 669</p> |

1 specifically evaluated it, but I think that such a  
2 proposal would get at some of the concerns that we would  
3 have about having a profit at the current O.R. and  
4 profit on the composting per-tip fee.  
5 **Q. That it would do what?**  
6 A. That it would address some of the concerns we  
7 have depending upon what the proposal was.  
8 **Q. It would address some of the concerns you have**  
9 **and some of the concerns that Recology has?**  
10 A. It sounds like it might.  
11 MR. BAKER: I don't have anything further.  
12 Thank you.  
13 DIRECTOR NURU: Thank you.  
14 Does the Ratepayer want to cross-examine?  
15 EXAMINATION  
16 BY MS. DILGER:  
17 **Q. Good morning. I just a couple of questions.**  
18 **Did you explore any rate structures that had a**  
19 **had at an ultimate 25% or any level where regardless of**  
20 **service, there is a cap for how high it could be**  
21 **increased?**  
22 A. Within the structures of the rate model and  
23 the details provided by Recology, we wanted to work  
24 within the current structure. So no, we did not explore  
25 something that had an applied cap. We do believe that  
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1 that's something that could be explored, but I think  
2 that it would fundamentally change the structure that is  
3 currently in place.  
4 **Q. How about for consumers or ratepayers that may**  
5 **see their rates go down? Did you consider not letting**  
6 **be part of the equation?**  
7 A. It's been discussed with staff. I think from  
8 our perspective, that it is an evening. When you adjust  
9 a rate structure like as being proposed here, you do  
10 have changes throughout the entire system. Some folks  
11 go up and some folks go down. We did discuss that.  
12 I don't methodology that would work to integrate it  
13 specifically in the rate structure and rate format that  
14 is currently utilized by Recology.  
15 **Q. Thank you. Of the people whose rates would**  
16 **go down, do you an idea of what type of ratepayer or**  
17 **consumer looks like, what their habits are?**  
18 A. I don't know about the habits. I know about  
19 their container sizes, which tells me something about  
20 their habits. I mean, generally these are larger trash  
21 landfill generators and often also folks who have  
22 multiple containers or other sizes of containers for  
23 recycling and organics other than the minimum.  
24 **Q. So higher waste producers are technically**  
25 **going to get a lower rate under this rate structure?**  
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1 A. Generally, yes.  
2 **Q. Okay. You mentioned that there would be a**  
3 **mandatory switch from to 96-gallon trash bin down to 64.**  
4 **Has there been any considerations to keep the 96-gallon**  
5 **bin?**  
6 A. That has not been a question that I've been  
7 asked. It's a very small number of customers in  
8 comparison to the entire service area. It's  
9 surprisingly small, in fact.  
10 **Q. What about for multi-units? Those buildings**  
11 **we've talked so much about with two to five units,**  
12 **those who share trash service.**  
13 A. What's the specific question regarding  
14 multi-units?  
15 **Q. I guess I'll just move to multi-units in**  
16 **general.**  
17 A. Okay.  
18 **Q. Looking at Item 88 -- you can go back and**  
19 **forth between comparison. But from what I'm looking at,**  
20 **it seems very apples-to-oranges because the price for**  
21 **this service of, for example, 64/64/32-gallon service**  
22 **for a four-unit building will go up to \$116.53, whereas**  
23 **if you look at that for single unit for a single-family**  
24 **residence, that would actually go down to \$56.54.**  
25 **Would you say that single-family residences**  
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1 **are getting a better deal under this new rate structure?**  
2 A. Not necessarily. What is happening here is  
3 that in a multi-unit building, they're both paying for  
4 the cost of the collection services in the bins that you  
5 put your materials in and put out to the street, but  
6 you're also paying for the cost of the other services  
7 that you receive benefits from.  
8 The reason that the multi-units go up in these  
9 categories is because the per-unit charge is going up to  
10 account for more of the fixed cost. That is directly  
11 related to their participation and ability to benefit  
12 from other programs -- HHW programs, the benefits that  
13 are received through the BIC and AMC programs. So it's  
14 more directly aligning that cost with the rates they pay  
15 with the cost of providing these other service, not just  
16 the bins that are placed out at the curb.  
17 **Q. So for a multi-unit building, their only way**  
18 **to mitigate an increased charge is to reduce their**  
19 **waste?**  
20 A. To reduce their waste or better utilize the  
21 capacity that they have.  
22 MS. DILGER: Okay. So it's probably not a  
23 question for you, but hopefully later on we can address  
24 whose responsibility it is to reduce their waste and how  
25 to do that education outreach.  
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1 That's all I have for now.  
2 THE WITNESS: Thank you.  
3 DIRECTOR NURU: Okay. I think we will go  
4 to --  
5 Did you want to add something?  
6 MR. HALEY: Yeah.  
7 DIRECTOR NURU: Robert Haley from Department  
8 of the Environment.  
9 EXAMINATION  
10 BY MR. HALEY:  
11 **Q. Yes, I just have one clarification for**  
12 **Mr. Schultz.**  
13 **Earlier I believe you indicated that the two-**  
14 **-to-five unit residential customers could be eligible**  
15 **for a \$5 dollar credit; is that right?**  
16 A. That's my understanding, based on the math in  
17 the application for the T-20 subscribers.  
18 **Q. Just to clarify, my understanding looking at**  
19 **the applications, which is Exhibit 1A, RSS/RGG Schedule**  
20 **B3, that \$5 dollar credit is just being proposed for the**  
21 **20-gallon customers?**  
22 A. That's my indication.  
23 20-gallon customers in any unit combination.  
24 **Q. And it's my understanding that only single-**  
25 **-family are eligible for 20-gallon bins and currently**  
Page 674

1 **have them?**  
2 A. Okay. Well, we might need to look at that a  
3 little bit. In the number that's included in the rate  
4 application, unless it's been revised, is equal to the  
5 number of subscribes to T-20 at any service level, based  
6 on what I reviewed. Or any unit combination. We can --  
7 I confirm that with Recology.  
8 MR. HALEY: Okay, thank you.  
9 EXAMINATION  
10 BY MR. BRUEN:  
11 **Q. Mr. Schultz, good morning. My name's**  
12 **Tom Bruen and I'm acting as outside counsel for the City**  
13 **in this rate review hearing. I wanted to follow up on**  
14 **some of your answers to Mr. Baker's questions on the**  
15 **compost facility operating ratio subject.**  
16 **To begin with, Mr. Baker asked a conceptual**  
17 **question of whether or not allowing an investor in a**  
18 **high-risk business a higher profit or return on capital**  
19 **was appropriate in a high-risk business, and I think you**  
20 **generally answered in the affirmative.**  
21 **My question is do you know if any of the three**  
22 **Recology subsidiaries that are involved in this rate**  
23 **review proceeding are investors in the Hay Road or**  
24 **Blossom Valley facilities?**  
25 A. I'm not familiar with the investor  
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1 relationships in any of their subsidiaries.  
2 **Q. But you have seen the audited financial**  
3 **statements of the three Recology companies involved in**  
4 **this proceeding?**  
5 A. We have them, yes.  
6 **Q. And those financial statements, so far as you**  
7 **know, don't show an investment in either of those**  
8 **composting facilities by the three Recology**  
9 **subsidiaries?**  
10 A. We have not reviewed them for that level of  
11 detail. What we've reviewed them for is consistency and  
12 expense and revenue calculations as they relate to  
13 what's included in the rate proposal.  
14 **Q. Fair enough. So sitting here today, you're**  
15 **not aware that any of the Recology subsidiaries involved**  
16 **in this rate proceeding face any risk of loss of**  
17 **investment in the two composting facilities if, for some**  
18 **reason, there's a regulatory change or something else**  
19 **that affects the value of that investment?**  
20 A. I don't information either way on that one.  
21 **Q. All right. Have you received financial**  
22 **statements for the two Recology facilities that handle**  
23 **organics processing?**  
24 A. No.  
25 **Q. Do you know how much profit they make?**  
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1 A. No.  
2 **Q. So when you were asked by Mr. Baker if it**  
3 **would be appropriate to consider giving the collection**  
4 **companies who may not be investing that business a**  
5 **higher operating ratio to account for the risk of those**  
6 **operations, you don't know to what extent the profit of**  
7 **those operations current make already account for that**  
8 **risk.**  
9 A. Correct; we do not.  
10 **Q. Now, Mr. Baker asked about a couple of things**  
11 **that distinguish organics facilities from landfills, and**  
12 **there were two factors that were discussed. One was**  
13 **demand and one was future regulatory change.**  
14 **With respect to future regulatory change, has**  
15 **Recology presented you with any information indicating**  
16 **that there is a probability of a significant regulatory**  
17 **change affecting its organics operations that has not**  
18 **yet occurred but will occur in the future?**  
19 A. There's a discussion of it within the rate  
20 application and some concerns about how future  
21 regulations might impact it. We don't have anything  
22 specific. We do see, however, that their actual per-ton  
23 costs have increased in response to regulatory concerns  
24 in recent years.  
25 **Q. And in fact the biggest cost driver in this**  
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1 **rate proceeding is a 28% cost increase reflecting**  
2 **increases in the gate rates charged by those composting**  
3 **facilities?**  
4 A. No, that's not quite accurate.  
5 **Q. I'm sorry, I'm looking at the wrong --**  
6 **it's blue. It's the 6%?**  
7 A. It's a smaller piece of the pie. It's the 6%.  
8 **Q. Okay. And that 6% reflects what, exactly?**  
9 A. The change in the per-ton fee.  
10 **Q. And the change in the per-ton reflects**  
11 **increases in regulatory cost affecting those operations?**  
12 A. As it's been represented by Recology, yes.  
13 **Q. All right, okay. Now with respect to the**  
14 **one -- the other area of risk, which is demand, is it**  
15 **your experience that demand for landfills has been**  
16 **decreasing in recent years?**  
17 A. It's remaining relatively static.  
18 **Q. And what about the demand for composting**  
19 **facilities?**  
20 A. Increasing significantly in response to state  
21 legislative change as well as local programatic  
22 requirements.  
23 **Q. And from the standpoint of a business,**  
24 **is increasing demand a downside or an upside?**  
25 A. Depends on how you look at it. With respect

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1 to composting facilities, there's a downside in that  
2 there is actually a risk of running out of regional  
3 capacity to process the organics that are sought for  
4 processing by all of the municipalities and  
5 jurisdictions around. So the downside there is that  
6 there is a risk of actually not having a home for some  
7 of those materials. The upside, of course, is that  
8 they're fully maximized in terms of their utilization of  
9 those facilities.  
10 **Q. And generally when a demand goes up for a**  
11 **products, the company that produces the product is in a**  
12 **position to raise its prices?**  
13 A. Correct.  
14 MR. BRUEN: That's all I have.  
15 Thank you.  
16 DIRECTOR NURU: Okay. Any other  
17 cross-examination? Mr. Baker, it looks like you have  
18 some questions.  
19 RE-EXAMINATION  
20 BY MR. BAKER:  
21 **Q. I just wanted to follow up, if I could,**  
22 **on questions Mr. Bruen asked you.**  
23 **Is it your understanding of the structure of**  
24 **the rate application that the composting facilities**  
25 **Hay Road and Blossom Valley charge a tip fee to Recology**

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1 **San Francisco?**  
2 A. Correct.  
3 **Q. And Recology San Francisco has incorporated**  
4 **that tip fee as an expense as part of its overall**  
5 **application?**  
6 A. Correct.  
7 **Q. So if Hay Road or Blossom Valley increase**  
8 **their tip fee next year or the year after, who has to**  
9 **pay that?**  
10 A. Recology San Francisco.  
11 **Q. And you haven't seen anything that would**  
12 **restrain Recology Hay Road or Recology Blossom Valley**  
13 **from increasing their tip fees?**  
14 A. Again, I don't know the specific contractual  
15 or agreement relationships between RSF and those two  
16 entities; so I don't know one way or the other.  
17 **Q. But you haven't seen anything that indicates**  
18 **that they're restrained?**  
19 A. No.  
20 **Q. So if Recology Hay Road or Recology Blossom**  
21 **Valley were to increase the tip fee and Recology**  
22 **San Francisco paid it, could Recology San Francisco**  
23 **just automatically pass that on to the ratepayers?**  
24 A. No, it could not automatically be passed on.  
25 **Q. We'd have to rate for another rate hearing or**

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1 **some other procedure; correct?**  
2 A. Or potentially negotiate those costs with the  
3 partners to keep them within around that is acceptable  
4 to Recology up to the next detailed rate review.  
5 **Q. So given those parameters, would you agree**  
6 **that Recology San Francisco does bear a risk --**  
7 A. Yes.  
8 **Q. -- that changes could occur at the composting**  
9 **operations which would increase Recology San Francisco's**  
10 **costs and Recology San Francisco would not be able to**  
11 **pass on those costs?**  
12 A. There is a risk to that, yes.  
13 **Q. And the other thing I wanted to ask you about,**  
14 **Mr. Bruen asked you about two areas that he said I asked**  
15 **you about. Maybe I did, but I didn't mean to ask it**  
16 **that way, but I just wanted to clarify. I was asking**  
17 **you about risk of regulatory changes, and secondly, the**  
18 **risk of additional costs due to technological changes,**  
19 **operation changes, innovation.**  
20 **Did you understand me to be talking about two**  
21 **different areas: one, regulatory changes; and the**  
22 **second, possible operating changes that could give rise**  
23 **to an increased cost?**  
24 A. I could say I understand you now on that, yes.  
25 **Q. Well, I wasn't clear. Because I didn't intend**

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| <p>1 <b>to talk about demand, but I was talking about this other</b><br/>2 <b>area so I just wanted to clarify that.</b><br/>3 MR. BAKER: Thank you.<br/>4 DIRECTOR NURU: Okay. Any other<br/>5 cross-examination?<br/>6 Okay. Maybe at this time we should take a<br/>7 ten-minute break. So can everybody can be back here at<br/>8 9:55 promptly.<br/>9 (Off the record at 9:42 a.m.)<br/>10 (On the record at 9:55 a.m.)<br/>11 DIRECTOR NURU: At this time I think I will<br/>12 ask Mr. Baker if he would like to begin Recology's<br/>13 additional testimony on recommendations of the<br/>14 Staff Report.<br/>15 MR. BAKER: Yes, Mr. Nuru. We're going to<br/>16 have John Porter and Mark Arsenault come up together<br/>17 again, if that's okay.<br/>18 DIRECTOR NURU: Okay. If both John and Mark<br/>19 will take the stand.<br/>20 JOHN PORTER &amp; MARK ARSENAULT,<br/>21 having previously been duly sworn,<br/>22 were examined and testified as follows:<br/>23 EXAMINATION<br/>24 BY MR. BAKER:<br/>25 <b>Q. All right. Gentlemen, you're still --</b></p> <p style="text-align: right;">Page 682</p>  | <p>1 Tracking Report is a reporting requirement as part of a<br/>2 past rate process. This particular report was not yet<br/>3 prepared and not due when the final rate application was<br/>4 submitted, and so we're now submitting it into evidence<br/>5 as it's been completed and submitted to the City<br/>6 subsequent to the final application.<br/>7 BY MR. BAKER:<br/>8 <b>Q. So this is a form of report that is regularly</b><br/>9 <b>submitted to the City on an annual basis?</b><br/>10 A. (PORTER) Correct. And it tracks the reasons<br/>11 why we are getting contacted by our customers, and it<br/>12 takes into account various forms of communication<br/>13 whether it be either e-mail or calls.<br/>14 <b>Q. Thank you. Do you have the Staff Report</b><br/>15 <b>there?</b><br/>16 A. I do.<br/>17 <b>Q. If you could turn to page 15 of the Staff</b><br/>18 <b>Report, which is Exhibit 78.</b><br/>19 A. Okay.<br/>20 <b>Q. And that in particular talks about Recology's</b><br/>21 <b>assumption in its application regarding loss of revenue</b><br/>22 <b>due to apartment customers downsizing their service.</b><br/>23 A. Yes.<br/>24 <b>Q. And the Staff states that the percentage that</b><br/>25 <b>Recology used was too high and the Staff recommends a</b></p> <p style="text-align: right;">Page 684</p>  |
| <p>1 DIRECTOR NURU: Mr. Baker, you may continue.<br/>2 MR. BAKER: Before we start, I'd like to offer<br/>3 an exhibit. A Golden Gate and Sunset customer<br/>4 communication tracking report for January 1, 2016,<br/>5 through December 31, 2016. This will be --<br/>6 MS. DAWSON: Exhibit 91.<br/>7 MR. BAKER: 91, thank you.<br/>8 BY MR. BAKER:<br/>9 <b>Q. Mr. Porter, can you just describe generally</b><br/>10 <b>what this is.</b><br/>11 MS. DAWSON: Mr. Baker, before we go there I<br/>12 want to officially enter it into the record but I don't<br/>13 have it yet. And I don't have our attorney here present<br/>14 at the moment, so I'm acting on his behalf.<br/>15 So Exhibit 91, entitled "Golden Gate<br/>16 Disposal &amp; Recycling Company and Sunset Scavenger<br/>17 Company Customer Communications Tracking Report,<br/>18 January through December 2016."<br/>19 (Exhibit 91, "Customer Communication<br/>20 Tracking Report [Recology]," was admitted<br/>21 into evidence.)<br/>22 MR. BAKER: Thank you. Which is Exhibit 91?<br/>23 MS. DAWSON: Yes.<br/>24 THE WITNESS: (PORTER) Yes. And to answer<br/>25 your question, Mr. Baker, this Customer Communication</p> <p style="text-align: right;">Page 683</p> | <p>1 <b>smaller percentage of proposed migration.</b><br/>2 A. Are we talking about migration or the<br/>3 apartment? Sorry.<br/>4 <b>Q. Migration.</b><br/>5 A. Okay, talking about the migration. Yes.<br/>6 <b>Q. So can you give us your thoughts on that</b><br/>7 <b>point?</b><br/>8 A. Sure. Subsequent to the Staff Report being<br/>9 completed, we did an analysis on apartment migration,<br/>10 particularly around how much change would be required<br/>11 in order for us to meet our 1% migration goals. And<br/>12 frankly, the findings were fascinating.<br/>13 If we use a targeted approach on the largest<br/>14 apartment buildings within the city of San Francisco,<br/>15 we would need to convert only 348 buildings to diversion<br/>16 rates ranging from 65% to 75%. So moving some of the<br/>17 largest buildings in San Francisco, 348 of them to 65%<br/>18 to 75% diversion depending on their existing diversion,<br/>19 would result in over a 4.3% migration over the<br/>20 three-year term of the rate, which would exceed the kind<br/>21 of 3%, if you will, 1% per year over a three-year<br/>22 assumed term of the rate application that's included in<br/>23 the final application.<br/>24 <b>Q. So to be sure we have all those numbers</b><br/>25 <b>straight, the final application assumes a migration of</b></p> <p style="text-align: right;">Page 685</p> |

1 **1% per year?**  
2 A. Correct.  
3 **Q. For a total of 3% over three years?**  
4 A. Over -- yeah, the assumed three-year term,  
5 yes.  
6 **Q. And "migration," again, means what?**  
7 A. It is when a customer takes one gallon of  
8 trash services and moves that to either recycling or  
9 composting services.  
10 **Q. And the analysis that you did indicates that**  
11 **if you could get 348 of the largest buildings to**  
12 **increase their recycling up to 65% to 75%, that you**  
13 **could increase that total migration from 3% over three**  
14 **years to 4.3%?**  
15 A. Right. In order to achieve our 3% goal, if  
16 you will, that we included in the application, yeah,  
17 we would touch 348 customers that would end up resulting  
18 in a 4.3% migration.  
19 **Q. So when you talk about getting these buildings**  
20 **to recycle at a clip of 65% to 75%, can you give us some**  
21 **idea of that population of buildings is doing now?**  
22 A. It runs the gamut. In general, all of the  
23 customers, you know, they range from 10% to 15%  
24 currently. And so it kind of runs the 10%-to-15%  
25 band where they live, so we're asking them in some

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1 cases to increase significantly to 65% which would  
2 be approximately equal-size service for all streams  
3 of service.  
4 And then for those that are already doing a  
5 better job, increasing that a little bit more. In the  
6 51%-or-greater range, we're asking them to step it up to  
7 75% essentially.  
8 **Q. So can either of you give us any examples of**  
9 **buildings within the city where there has been some**  
10 **outreach and some success in increasing recycling that**  
11 **gives you a level of confidence that you could get other**  
12 **large buildings to comply as well?**  
13 A. (ARSENAULT) I'll take that one.  
14 And we do have some examples, and they exist  
15 primarily around large complexes where either one of two  
16 things -- well, really a couple of criteria are  
17 important.  
18 One is that there is someone who is really  
19 motivated and a champion of the building; so that's very  
20 important in this transition process.  
21 Second is that there is a focused effort for  
22 outreach and education for the buildings signage.  
23 And then third and probably the most important  
24 is really a shift and a complete change in the way that  
25 trash is handled. The proposal that we have on the

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1 table does contemplate the kind of outreach I'm  
2 describing as well as the personnel to provide that.  
3 What we have seen were these buildings that have been  
4 successful and achieved these results as really one of  
5 two primary changes that have been made.  
6 First and foremost, which I think is the  
7 easiest method, that is to change way chutes -- most of  
8 these buildings have chutes, typically a single chute --  
9 and they're just traditionally used for trash. Because  
10 of the way the waste stream has changed, really that is  
11 a very small volume of what should be going down that  
12 chute; the larger volume is by far the recyclables.  
13 So where we've seen success is where the  
14 chutes have been -- the signage has gone out, the  
15 education has gone to the building, and the residents  
16 in that building are then putting their recyclables down  
17 the chute and they are carrying their trash down to the  
18 parking area where many of the buildings have their  
19 recycling, both the trash and the organics. So that in  
20 itself is probably the largest opportunity for success  
21 in this area.  
22 The other area is where some of the buildings  
23 have actually placed most of the chutes or most of the  
24 services by elevators where they've actually created  
25 little stations for the residents, and then had

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1 janitorial staff or other staff go periodically  
2 throughout the day to the levels of the floors  
3 collecting the material and bringing it down.  
4 That's done a number of different ways, but  
5 again, it involves a lot of effort in terms of outreach,  
6 signage, containers, making it convenient. It's all  
7 about convenience and space. The buildings are just not  
8 designed for what we need to do, but it's not difficult  
9 to change them as long as the residents and the property  
10 owner -- and like I say, typically the property manager  
11 is willing to work with us to do that. We do have  
12 examples and I know SFE also has worked with some of  
13 these same buildings and seen that kind of success.  
14 So really, this is about and I think we  
15 described it some time ago we have experienced this 1%  
16 migration historically over the past several years with  
17 our commercial customers where that focus has been made.  
18 The apartments is where we really want to target this.  
19 We've experienced with really not this kind of focus a  
20 2/10ths of a percent rather than one full percent.  
21 So as John described, there's like 8,000 apartment  
22 complexes. But in looking at the data, looking at the  
23 opportunity, the biggest opportunity is in the larger  
24 complexes and over a three-year period, we really have  
25 to successfully convert just over 110 or 115 of them,

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1 which I think is very much achievable.  
2 **Q. I think we have some photos here of some of**  
3 **the successful efforts that have started in some of**  
4 **these buildings. Maybe we'll show that and you can**  
5 **identify the building and give them due credit.**  
6 A. (PORTER) It's also probably worth noting  
7 while you've handing those out and it's been mentioned  
8 several times previously, but for those that haven't  
9 been at all the hearings, we do have a program  
10 contemplated in the application specifically related  
11 to apartment outreach efforts to institute programs  
12 similar to these examples that we are handing out now.  
13 MR. PRADHAN: These two photographs.  
14 They will be admitted as Exhibit 92.  
15 MR. BAKER: Can we make them 92 and 93?  
16 MR. PRADHAN: Sure. 92 and --  
17 (Exhibit 92, "Recycling Chute photograph  
18 [Recology]," was admitted into evidence.)  
19 (Exhibit 93, "Apartment Recycling Station  
20 photograph [Recology]," was admitted into  
21 evidence.)  
22 BY MR. BAKER:  
23 **Q. Let me start with -- if you don't mind putting**  
24 **the overhead up for me -- let's do Exhibit 92, the**  
25 **recycling chute.**

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1 A. (ARSENAULT) Yeah, this is building  
2 200 Brannan Street. And this is actually newer chute,  
3 if you will. A lot of the older buildings just have a  
4 door, you pull the handle, and it slams shut behind you.  
5 But clearly this chute has been repurposed for recycling  
6 only, and it's a really good example of how simple it  
7 can be at the front-end to make this change.  
8 And then obviously where the chute goes to,  
9 which is typically down in the garage parking area,  
10 the property manager has to work with us to reconfigure  
11 the bins because there will be a much more significant  
12 volume of material that will go into those containers  
13 that are down below; so they have to be rotated more  
14 frequently. But really, that is literally the only  
15 change that will have a significant impact.  
16 **Q. And then the other photo we have.**  
17 A. This one's more interesting and more creative.  
18 **Q. Just going to interrupt you just one second.**  
19 **So we're marking as Exhibit 93 a photo of a**  
20 **green bin, a blue bin, and a cabinet with some baskets**  
21 **on the right that you're going to tell us what they are.**  
22 A. Yeah, Cathedral Hill Apartments.  
23 These are stations throughout every floor.  
24 You see barely see the elevator buttons on the right-  
25 -hand side, so they're clearly near the elevator where

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1 most folks would go whether they're coming in or out of  
2 the building. And so the containers are placed right  
3 there convenient for them, and obviously they've got the  
4 compostables, the recyclables, and the other is really a  
5 great effort which is the household hazardous materials  
6 we don't want in either container. And you can see -- I  
7 don't know if you can see the picture there, but those  
8 are batteries. And then the residents actually carry  
9 down their trash.  
10 So again, a complete reversal of the  
11 traditional method of moving material, but I think it  
12 speaks to the fact that now most of the material is  
13 recyclable or compostable, so we just need to convert  
14 the way it's managed at these buildings.  
15 **Q. This may be a question better directed to**  
16 **Mr. Giusti -- I don't know. But have you gotten**  
17 **feedback from property managers and/or tenants at these**  
18 **buildings where these two changes have been made to see**  
19 **how they're received?**  
20 A. Yes. It's been extraordinarily positive for  
21 the tenants. And I will say for the property managers,  
22 under the proposal, it will be very popular as well  
23 because as you know, we are proposing to move the  
24 threshold for the discounts from 10% floor to 25% floor;  
25 so they will be highly motivated from an economic

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1 perspective to see these changes come about.  
2 **Q. So when Mr. Porter had mentioned an analysis**  
3 **of 348 properties where changes could be made, I know**  
4 **you haven't visited all 348 properties, but do you have**  
5 **a sense of how many of those have not yet experienced**  
6 **the sorts of changes that are depicted in these two**  
7 **photos?**  
8 A. I do not, but I could hazard a guess that by  
9 and large, they have not gone to these types of changes.  
10 So where you see a 50% diversion, clearly they're making  
11 an internal effort. But those efforts are difficult to  
12 sustain unless you change the setup of the service, and  
13 that's really critical.  
14 **Q. And part of the application is for funding for**  
15 **outreach to get the apartment managers and the tenants**  
16 **to buy into this new sort of behavior; correct?**  
17 A. Correct.  
18 **Q. So Mr. Porter, does this analysis make you**  
19 **more confident in the 1% migration, less confident, or**  
20 **no change?**  
21 A. I wish we had done this before we used the 1%  
22 migration assumption because I would have argued that we  
23 should increase it, but c'est la vie. We'll work with  
24 what we got. But yeah, I feel very confident knowing  
25 the efforts. And I think using the targeted approach

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1 on the largest building would see the most dramatic  
2 of impacts.  
3 **Q. Now continuing on page 15 of the Staff Report,**  
4 **Exhibit 78, there's discussion there of the other**  
5 **element, namely the projection of the number of new**  
6 **apartment customers over a year period of 25. And we**  
7 **heard Mr. Drew testify on this subject last week about**  
8 **the Staff's indication that 50 was a more reasonable**  
9 **projection rather than 25. And I think Mr. Drew also**  
10 **indicated that the adjustment that the Staff Report**  
11 **recommended in revenue did not account for the expenses**  
12 **of servicing additional customers; is that right?**  
13 A. I believe he wasn't certain at that time.  
14 **Q. What can you tell us about that?**  
15 A. Well, I can tell you that, yeah, I mean, it  
16 would not have been included -- the expenses associated  
17 with collection and disposal and processing would not  
18 have been included and just layering on an additional 25  
19 apartment accounts.  
20 It is probably worth clarifying, though, that  
21 it's difficult to look at customer groups in isolation,  
22 especially in the apartment and commercial sectors.  
23 Because what customers are classified as commercial  
24 versus apartment varies on a couple factors, one on  
25 the size of the building. So if it's greater than

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1 600 rooms, then it would be considered a commercial  
2 building. Or if they have service in excess of 3 yards,  
3 a container service in excess of 3 yards, then it also  
4 would be considered a commercial building. And so  
5 looking at the support provided, it's difficult to tell  
6 whether or not these customers were included in our  
7 assumed commercial accounts.  
8 And then to answer your question more  
9 specifically, in my opinion, if you were to layer the  
10 cost associated with these additional 25 buildings,  
11 you know, it would approximate to some degree the  
12 anticipated additional revenue, I think, that the delta  
13 would be -- or the difference between those two would be  
14 relatively inconsequential relative to the size of this  
15 application.  
16 **Q. So to make sure I understand what you just**  
17 **said, the Staff Report projected that 50 new apartment**  
18 **customers would come online rather than Recology's**  
19 **projection of 25; correct?**  
20 A. Yes.  
21 **Q. So that's an additional 25 customers, and the**  
22 **Staff Report said that that would translate into**  
23 **additional revenue of \$156,072 dollars; correct?**  
24 A. That's correct.  
25 **Q. And to the extent there might be additional**

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1 **revenue that would reduce the revenue need from**  
2 **residential ratepayers and therefore impact the rate;**  
3 **correct?**  
4 A. Correct. That is the proposal.  
5 **Q. So let's assume that Mr. Drew is right and**  
6 **that there are going to be 50 new apartment customers**  
7 **instead of 25. Your point is that you got to look at**  
8 **not only revenue, but also the expense of servicing**  
9 **those additional customers; correct?**  
10 A. Yes.  
11 **Q. And what would be the additional expense?**  
12 **Not in terms of -- I know you haven't specifically**  
13 **quantified it, but what are the nature of additional**  
14 **expenses that are required if you have 25 additional**  
15 **apartment buildings?**  
16 A. Well if you have additional apartment  
17 buildings, you require additional capacity in your  
18 collection trucks, so therefore you may result in  
19 additional route or additional route hours. So you've  
20 got capital costs equipment, labor hours, benefits,  
21 overhead, the administrative costs. Then you've got  
22 processing costs, whether it be compostables or  
23 recyclables, disposal costs. And then lastly, if these  
24 are apartment customers, they qualify for Bulky Item  
25 Collection.

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1 **Q. The what?**  
2 A. Bulky Item Recycling, excuse me.  
3 And so there's a multitude of costs that would  
4 be associated with these additional customers that would  
5 not be contemplated by just adding additional revenue to  
6 the rate model.  
7 **Q. Have you quantified what the additional cost**  
8 **would be for 25 additional apartment customers?**  
9 A. I have not done it in a rigorous analysis.  
10 You would need to know the locations of the building,  
11 the capacity of the trucks that service these areas,  
12 the size of the streams, et cetera, to do a really  
13 robust analysis.  
14 But if you want to use high math, you know,  
15 25 additional customers, 3 streams of service, that's  
16 75 additional pickups in one day. I think a front-  
17 loader route, which is likely the service offering for  
18 the buildings of these size, can do about 60; so we're  
19 talking about one route day when routes are roughly  
20 \$500,000 dollars. So we're talking about, at a minimum,  
21 \$100,000 dollars of just collection costs, and then you  
22 have disposal and then the other administrative and  
23 overhead costs that we're talking about.  
24 **Q. So I think you said this. So your conclusion**  
25 **was that 25 additional apartment customers would**

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| <p>1 <b>generate additional revenue, that revenue would be</b><br/>2 <b>offset by the cost required to service those customers?</b><br/>3 A. Correct.<br/>4 <b>Q. Let's turn the Staff Report on page 17.</b><br/>5 <b>That has a section discovering the CPI inflation factor?</b><br/>6 A. Yes.<br/>7 <b>Q. Could you address that, please.</b><br/>8 A. Sure. You know, I've worked closely with R3<br/>9 and their staff on this particular matter. I think<br/>10 we're talking a little bit about what's your favorite<br/>11 flavor of ice cream versus a practical matter of<br/>12 determining what is the most appropriate way of<br/>13 measuring inflation. I don't disagree that this is a<br/>14 reasonable way of approximating inflation. So I also,<br/>15 you know, whether what methodology is preferable is<br/>16 subject to opinion, but I don't think that this is<br/>17 unreasonable.<br/>18 So my only ask that if they were to move<br/>19 forward with this approach in their Director's Report<br/>20 recommendation is that that approach is consistent with<br/>21 the application as it is with the COLA calculation in<br/>22 subsequent years so that we use a consistent methodology<br/>23 moving forward.<br/>24 <b>Q. Okay. I'm going to wait a minute because the</b><br/>25 <b>people who may want to hear this are talking amongst</b><br/>Page 698</p>                                    | <p>1 the next one. That being said, I think we won't<br/>2 conclude until the next week.<br/>3 MR. BAKER: Well, I'll yield to you and we'll<br/>4 see what we can cover this week and then cover the rest<br/>5 next week. Thank you.<br/>6 MS. DAWSON: I do actually have some<br/>7 cross-examination questions on the testimony.<br/>8 EXAMINATION<br/>9 BY MS. DAWSON:<br/>10 <b>Q. So I'd like to understand -- so as noted by</b><br/>11 <b>Mr. Baker in the Staff Report, when we talked about</b><br/>12 <b>migration and the corresponding revenue loss, we did</b><br/>13 <b>point out in a prior period since the last rate</b><br/>14 <b>application which was in 2013, there's really only been</b><br/>15 <b>0.2% -- so 2/10ths of 1% -- change in decline in</b><br/>16 <b>apartment revenue.</b><br/>17 <b>So I'd really like to understand maybe a</b><br/>18 <b>little more fully why you're convinced it's so different</b><br/>19 <b>this time, and in particular I note something that Mark</b><br/>20 <b>Arsenault said in his testimony which is that it</b><br/>21 <b>requires focused effort, some capital investment</b><br/>22 <b>potentially, and a building champion, which may be</b><br/>23 <b>harder to find than we would hope. And so I'd just like</b><br/>24 <b>to hear a little bit more on that.</b><br/>25 A. (PORTER) One thing to clarify is that 0.2% is<br/>Page 700</p> |
| <p>1 <b>themselves. But please, take whatever time you need.</b><br/>2 <b>So when you say that the recommended</b><br/>3 <b>methodology in the Staff Report, which yields a 2.67%</b><br/>4 <b>inflation factor versus 3%, would be okay with you so</b><br/>5 <b>long as it's applied consistently. What do you mean by</b><br/>6 <b>that, "applied consistently"?</b><br/>7 A. Currently we're using a year-over-year<br/>8 methodology for our COLA calculation, and we're not<br/>9 using this rolling average method that's proposed.<br/>10 And so my ask would just be that if we use this<br/>11 methodology for the inflation factor in the application,<br/>12 that we use that same methodology in the COLA<br/>13 calculation.<br/>14 <b>Q. Namely a rolling year-over-year?</b><br/>15 A. A rolling average, yes.<br/>16 MR. BAKER: There are some other issues that<br/>17 we think we'll have Mr. Porter and Mr. Arsenault address<br/>18 which, as I understand it, are going to be addressed by<br/>19 Staff next week rather than this week. I'm thinking<br/>20 about the Bulky Items, for example, and the Abandoned<br/>21 Materials and the like.<br/>22 MS. DAWSON: Mr. Baker, I do actually have<br/>23 some data on that. It probably would at least be worth<br/>24 us starting to have those conversations this week as<br/>25 we'll have more time this hearing period than we will in<br/>Page 699</p> | <p>1 per year, not an aggregate of the term. Just want to<br/>2 clarify.<br/>3 <b>Q. Yes. But still, relatively small?</b><br/>4 A. Sure. Just making sure people don't think it<br/>5 was per year.<br/>6 <b>Q. Thank you for that clarification.</b><br/>7 A. (ARSENAULT) Yes, certainly. I'd be happy to<br/>8 expand. There is definitely more of a challenge in<br/>9 achieving diversion from the apartments, but in getting<br/>10 to zero waste, it's the opportunity. It's the frontier.<br/>11 And so I think we need to take this challenge more<br/>12 seriously. We're prepared to do it. The application<br/>13 contemplates that kind of outreach. And I think the<br/>14 rate structure contemplates that change by creating the<br/>15 opportunity for the property owner, which hasn't been so<br/>16 robust in the past.<br/>17 So I think you've got all three of those<br/>18 elements coming together. Finding the champion of the<br/>19 building, that is more difficult; there's no question<br/>20 about that. But we know how to get that job done, and<br/>21 we just need to put the focus to it -- put the wood to<br/>22 it, really.<br/>23 <b>Q. Okay. I have another follow-up question that</b><br/>24 <b>relates a bit to Mr. Porter's testimony in reflection of</b><br/>25 <b>Mr. Drew's information on the new number of apartments.</b><br/>Page 701</p>                     |

1 **Now, in earlier testimony and in your own**  
2 **studies, you've stated that you have a large proportion**  
3 **of fixed to variables costs which is reflected in the**  
4 **rate structure; is that correct?**  
5 A. (PORTER) correct.  
6 **Q. But what I also heard you saying, in citing**  
7 **the reasons for there being rising expenses, were some**  
8 **of those items that are actually fixed costs. So while**  
9 **I understand that there will be some increase and some**  
10 **potential variable service, I think that there's two**  
11 **arguments that could be made against that point: one,**  
12 **just that you do have a large amount of fixed costs and**  
13 **some excess capacity built into the system.**  
14 **In earlier testimony, we've heard discussions**  
15 **about how changing the split trucks and increasing**  
16 **routes is going to actually add capacity that you don't**  
17 **currently have in the system; so if you do end up with**  
18 **more customers, some portion of those new customers will**  
19 **benefit from that increased capacity -- understanding**  
20 **there are limits to that.**  
21 **Also for things like Household Hazardous**  
22 **Waste, Bulky Item Recycling, those are largely fixed-**  
23 **-cost item programs. And while they have been seeing**  
24 **increased demand over the large customer base, it seems**  
25 **to me that it's likely that the corresponding expense**  
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1 **increase is less than the revenue, and I'd like you to**  
2 **address that.**  
3 A. As I mentioned, the first caveat I made was  
4 this would require a robust analysis. And the expansion  
5 of routes and capacity, I believe, is primarily related  
6 to side-load collection. And if these are large  
7 apartment buildings, it would probably be front-load  
8 collection trucks. And so in order to really fully  
9 understand what the cost of impacts would be, you need  
10 to do a robust analysis surrounding where these  
11 buildings are located, what routes would they be on, how  
12 much capacity would be in the trucks that would service  
13 these buildings, and the types of collection that they  
14 would require.  
15 So you know, I understand your concern, I  
16 think it's facts-and-circumstances dependent, and I'd  
17 also just like to highlight the first point that I made  
18 which is you can't look at apartment customers in  
19 isolation without understanding their service level or  
20 size. And so if it's more than 600 rooms or their size  
21 of collection is greater than three yards, you're going  
22 to have a commercial-classified customer. So you know,  
23 between those two, it kind of makes it a difficult  
24 question to answer.  
25 **Q. So I would ask that Recology then -- so in**  
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1 **your application you had some assumption on the 25 units**  
2 **that you had assumed would come online and there must**  
3 **have been some corresponding expense assumptions rolled**  
4 **into that.**  
5 A. Correct.  
6 **Q. We would very much appreciate if Recology**  
7 **could provide that into the record and to us so that we**  
8 **have the opportunity to evaluate it, and perhaps using**  
9 **that assumption we can come up with something that seems**  
10 **reasonable for a larger number of apartment units.**  
11 A. Okay, yeah. I mean, any analysis that we  
12 would perform, we would do not apartments in isolation;  
13 it would be apartments and commercial combined.  
14 **Q. Right.**  
15 A. Just wanted to clarify.  
16 **Q. We would like to understand the basis of the**  
17 **25. Because if the need is 50, hopefully we can come up**  
18 **with some reasonable metric to apply to a larger number**  
19 **understanding that it's not perfect.**  
20 DIRECTOR NURU: Okay. So we will go ahead and  
21 start the Bulky Item discussion.  
22 MS. DAWSON: I'd like to ask Dan Negron to  
23 come up, but Mark Arsenault to stay.  
24 THE WITNESS: (PORTER) So you'd like me to  
25 leave?  
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1 MS. DAWSON: Well, I wouldn't say it that way.  
2 Wait, John, before you leave, I don't know if  
3 the Ratepayer Advocate wants to ask any follow-up  
4 questions.  
5 MS. DILGER: Not at this time.  
6 MS. DAWSON: John Porter can leave.  
7 DAN NEGRON,  
8 having previously been duly sworn,  
9 was examined and testified as follows:  
10 DIRECTOR NURU: Ms. Dawson, you may proceed.  
11 MS. DAWSON: So you will not be surprised to  
12 learn that I have a few new exhibits to introduce.  
13 Let's see -- and I think I'm going to start with two  
14 related to the Abandoned Materials Collection program.  
15 So I'm going to apologize in advance for the  
16 tiny type, which is one of the reasons why I thought it  
17 would be good out as an exhibit. I'll do my best for  
18 members of the audience to follow along here.  
19 There's two. So I've introduced two different  
20 pieces of paper: one that has lots and lots of lines  
21 with -- you can see it actually up here on the screen,  
22 the gray and the blue and the green. And I'm going to  
23 move on after that to a discussion about collection by  
24 time of day -- and this is specific to Abandoned.  
25 And then I actually have some additional  
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1 information that I'm going introduce in a minute about  
2 what it looks like when we start thinking about  
3 combining the two programs.  
4 MR. PRADHAN: So just let's just make sure we  
5 introduce these. The one that's on the screen,  
6 Ms. Dawson, I think that's the "Abandoned Waste - Volume  
7 of Service Orders."  
8 MS. DAWSON: "By Day of Week."  
9 MR. PRADHAN: "By Day of Week" chart.  
10 So we will admit that as Exhibit 94.  
11 (Exhibit 94, "Abandoned Waste - Volume of  
12 Service Orders by Day of Week [City],"  
13 was admitted into evidence.)  
14 MR. PRADHAN: And then the second chart,  
15 "Abandoned Waste - SOs for Directly to Recology  
16 Abandoned Waste Only by Hour of Day," we'll admit that  
17 as Exhibit 95.  
18 (Exhibit 95, "Abandoned Waste - Volume of  
19 Service Orders by Hour of Day [City]"  
20 was admitted into evidence.)  
21 MS. DAWSON: Thank you.  
22 EXAMINATION  
23 BY MS. DAWSON:  
24 **Q. Okay. Mr. Negron, I'm going to kind of ask**  
25 **you to help walk through. I know it's hard to read,**  
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1 **so I apologize.**  
2 A. I'm okay.  
3 **Q. Okay. So we've been evaluating a couple of**  
4 **different elements in the programs. Right now, the**  
5 **Abandoned Materials Collection is a program that runs**  
6 **every day but with slightly varying crew size at least**  
7 **on Sundays where there's fewer crews. And the initial**  
8 **proposal in the rate application was to add to both the**  
9 **Bulky Item Recycling and the Abandoned Materials**  
10 **Collection program, and then we asked for Recology to**  
11 **consider combining it; so we're looking at that and**  
12 **that's kind of where some of this discussion will be**  
13 **leading for the next few minutes.**  
14 **But before we get there, what we started**  
15 **doing -- and this is data that we collect, but also data**  
16 **that Recology receives through the City's 311 request**  
17 **for service. And what we wanted to do is look at what**  
18 **the volume of service requests look like by day of the**  
19 **week, because we suspected that the volume of requests**  
20 **actually varied quite a bit. And one of the evaluation**  
21 **points that we've been trying to consider was what do we**  
22 **do? Do we look at weekends differently than weekdays?**  
23 **And right now, we have kind of even service except for**  
24 **slightly less service on Sunday, and should we be**  
25 **looking at whether that needs some -- you know, whether**  
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1 **there's any adjustments that might make sense to be made**  
2 **in light of what we see.**  
3 **So what this exhibit shows is we've color-**  
4 **-coded -- so on top it shows you fiscal year '16, the**  
5 **first row of bars, and then on the bottom it's fiscal**  
6 **year '17. And I'm just showing for an example here the**  
7 **months from July to December, although we did look at it**  
8 **all the way through the calendar year on both years, and**  
9 **what it seems to show repeatedly is that Mondays are the**  
10 **highest demand days. Generally speaking, the weekends**  
11 **are the lower demand days and Sunday in particular being**  
12 **the lowest demand for service in terms of the calls that**  
13 **come in on Abandoned Material. And then the remainder**  
14 **of the week is relatively constant.**  
15 **And Mr. Negron, does that kind of seem to the**  
16 **be consistent with what your crews are seeing out in the**  
17 **field?**  
18 A. (NEGRON) Yes.  
19 **Q. Okay. So this is foundational for where we're**  
20 **going to -- what we'll talk about later when we get to**  
21 **looking at combining both programs.**  
22 **So I'm going to move on to the next exhibit.**  
23 **I have to see by shape here.**  
24 **So one of the things that Recology had**  
25 **proposed in its initial consideration of combining**  
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1 **both programs was to shift the time of day that service**  
2 **would be provided. And currently, service is provided**  
3 **starting at 8:00 in the morning and it goes until 3:30.**  
4 A. To 4:30.  
5 **Q. Okay, 4:30. Sorry. That's true.**  
6 **And then we looked at what the shift would**  
7 **look like if we started at 6:00 a.m. and continued till**  
8 **not as long into the afternoon. And what I wanted to**  
9 **point out here in this exhibit is that by keeping the**  
10 **service starting at 8:00 a.m., you actually are able to**  
11 **cover more of the calls that come in during that day**  
12 **within that -- within a closer period of time. Whereas**  
13 **if you -- and that's because the calls for service are**  
14 **generally shifted more towards the afternoon.**  
15 **And what you can see in these distribution**  
16 **charts, the top one shows the purple kind of matching**  
17 **the time of call coming in in the later-shifted service**  
18 **hours, whereas the second row shows the shifting to the**  
19 **earlier time. And what you can see, because the calls**  
20 **really don't start rising significantly until 8 o'clock,**  
21 **and there are calls that come in before, but they're**  
22 **relatively smaller in the call volumes. They start**  
23 **going up at 6:00, but not to as great an extent as what**  
24 **happens in the afternoon. So what you see is that --**  
25 **and I guess in statistics, we have a rather long tail to**  
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1 the right of service calls that come in. And the calls  
2 continue at about that same level through till pretty  
3 late into the evening. Now, we understand that there  
4 are limits in terms of what makes sense in the field, so  
5 you might look at some alternatives on off-hours service  
6 due to things like congestion in the afternoon. But  
7 generally speaking, the citizens of San Francisco are  
8 calling in these calls starting at around 8:00 and  
9 continuing till about 8:00 at night in somewhat  
10 significant numbers.  
11 Now I'd like to kind of move the discussion on  
12 towards looking at these two programs combined, and I'm  
13 going to show them --  
14 So I'm going to actually start --  
15 MR. PRADHAN: Ms. Dawson, why don't you let us  
16 know what this is and we'll mark it as Exhibit 96.  
17 (Exhibit 96, "Analysis of AMC/BIR Service  
18 Orders [City]," was admitted into evidence.)  
19 BY MS. DAWSON:  
20 Q. Sure. So this is an exhibit of actually six  
21 different images that explore the ways in which the two  
22 programs kind of work and could potentially work  
23 together. It shows a reflection of the service orders  
24 received. It also evaluates the potential for looking  
25 at treating the northeast section of town differently

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1 than the other parts of town. And there are some maps  
2 that illustrate kind of what the calls for service look  
3 like on a citywide basis. And then the last two images  
4 kind of explore the hourly volumes -- in other words,  
5 kind of what the two programs look like from a service  
6 request perspective?  
7 And I might clarify that the thing that's  
8 interesting or challenging about combining the two  
9 programs is right now the Bulky Item Recycling is done  
10 on an appointment basis and is scheduled in advance,  
11 whereas the Abandoned Materials Collection is done  
12 pretty much as the service calls come in. Although,  
13 there are some Abandoned Materials calls that can be  
14 routed and are routed and done the next business day.  
15 So in effect, what happens is after 4:30, any calls that  
16 come in aren't collected at that time, but they are  
17 efficiently routed so that they're covered beginning at  
18 8 o'clock by the crews that go out. And then as the  
19 service calls start coming in, they go from a  
20 pre-planned routing to a more dynamic situation.  
21 So I think what might be helpful would be to  
22 show the Abandoned Materials Collection map first,  
23 although I know that's not the order of the exhibit.  
24 I'm going to go ahead and put that up.  
25 So what this shows is the calls for service

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1 that were received from July to December of 2016, Monday  
2 through Friday only. Because as I've showed you, the  
3 Monday-through-Fridays are much busier than Saturday and  
4 Sunday. That doesn't mean there aren't any calls, but  
5 it just isn't nearly the volume. And what you'll notice  
6 by looking at how blue certain parts of town is, is that  
7 the demand for service is not equally distributed in  
8 San Francisco; it's actually quite focused in certain  
9 parts of town. And in particular, the northeast part of  
10 town and potentially going down to the corridor along  
11 the Mission is really where the focus of the service  
12 requests are. That doesn't mean there aren't other  
13 requests in other part of town; there certainly are.  
14 And that leads us to believe there are real benefits to  
15 being able to combine both programs, but it may be a  
16 little more complex than what we had been potentially  
17 been originally considering.  
18 So the second map is an overlay, and that  
19 combines Recology's data. So right now, the Bulky Item  
20 Recycling program -- it's described here as "Removal,"  
21 but it's really "Recycling." So if you look at this  
22 map, what you can see is the overlay of the pinkish  
23 color, which is all the requests that are being serviced  
24 by Recology and scheduled overlaid with the Abandoned  
25 Materials service calls. So there is a nice overlap,

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1 but still that pervasive blue does remain in certain  
2 parts of town where there's a clear, more focused demand  
3 than other places.  
4 Okay. So this data shows the service orders  
5 received together for both Abandoned Materials and Bulky  
6 Item Recycling. And I'd actually like Mr. Negron to  
7 help walk through a little bit about how he thinks this  
8 would work from an operational perspective.  
9 A. (NEGRON) So I'm looking at the average of  
10 7,554 for rate year '16 or fiscal year '16, and then it  
11 looks like it goes up 18% for rate year/fiscal year 2017  
12 with 8,933. I can tell you the benefit of combining the  
13 two programs and allowing us the opportunity of more  
14 time to route these efficiently. We'll support our  
15 efforts to use the existing staffing, which as I  
16 understand is a big component.  
17 It's a big ask right now to ask for two crews,  
18 one for each program. But if we combine the two, I am  
19 comfortable to say that the 20 drivers and the 10 crews  
20 can work together in ten zones to work more efficiently  
21 and pick up both the pink and the blue, and also deal  
22 with the real-time calls that are coming in day-to-day.  
23 I think we've spoken about this as a staff.  
24 The biggest challenge is if you combine the two  
25 programs, will the four-hour service level agreement be

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1 a hindrance as far as chasing that tail instead of  
2 gaining the benefits of routing the information?  
3 **Q. Right. So you're currently looking at what**  
4 **you thought you could achieve. I'm going to move us to**  
5 **another image that I think might help in this**  
6 **discussion.**  
7 A. Mm-hmm.  
8 **Q. So you've seen a lot of the maps. One of the**  
9 **things that we were interested in is maybe looking at**  
10 **ways to address the northeast part of town potentially**  
11 **slightly differently than the rest of the city, and I'm**  
12 **wondering -- you know, understanding that you're still**  
13 **kind of working on what the operational plan is. I'm**  
14 **wondering if you can kind of speak a little bit to this**  
15 **data and what your thoughts are in terms of how you**  
16 **might handle it.**  
17 A. For the northeast section-- it's kind of  
18 interesting, because you see an inversion as far as you  
19 have more Abandoned Material behavior and less of the  
20 Bulky Item Recycling requests. And so I kind of see the  
21 City's concerns that they would need the support for the  
22 AMC exclusive in the northeast section -- Tenderloin,  
23 South of Market.  
24 So versus the rest of the city, looks like the  
25 folks are generally using the Bulky Item Recycling

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1 program in lieu of the AMC. So I can see operationally  
2 that we would support additional crew however we end up  
3 doing the math.  
4 **Q. So what are the opportunities that you think**  
5 **might work just in terms of -- what might you consider**  
6 **doing?**  
7 A. I would definitely consider an exclusive AMC  
8 collection crew of a rear-loader and what we call a  
9 "MEA truck," a Mattress, Appliance, and Electronics --  
10 to exclusively work together with Public Works in that  
11 northeast section.  
12 **Q. And then the remaining, there would still be**  
13 **kind of the zone system for your other crews?**  
14 A. Yes. For the combined program and the other  
15 areas of the city.  
16 **Q. So were we thinking that those crews, you said**  
17 **the 10 and 10 combined would be able to cover most of --**  
18 **you kind of have a blanket of coverage, and then you**  
19 **would have this targeted crew that would address this**  
20 **differential between the two issues, I guess, or**  
21 **programs?**  
22 A. Yes. Operationally, it could be done.  
23 (ARSENAULT) Yeah, I'll comment as well.  
24 Just a couple of high-level things to consider. As we  
25 look at this, as you know, we contemplated two routes in

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1 keeping the program independent, but there's clear  
2 advantages of combining them. And there's a couple of  
3 things that we'll be looking at.  
4 Certainly geographically by combining them,  
5 then you've got all these pink dots and blue dots to  
6 each other. So you've got efficiency there. Presently,  
7 100% of the Bulky Item Recycling is pre-routed; so we  
8 use a system to essentially route that efficiently.  
9 And under the current scenario for the  
10 Abandoned Waste, because it's all essentially  
11 dynamically routed as you've described except for the  
12 calls that come in after 4:30, then it's largely much  
13 less efficient. So to give you an example of how less  
14 efficient, you separate the two programs. Then you've  
15 got roughly 30% improvement in productivity for the  
16 pre-routed collection versus the un-routed collection,  
17 and that's just sort of where you start from.  
18 So the more of the abandoned material that can  
19 be pre-routed, that will add efficiency to the program  
20 because we see it separately. We will continue to see  
21 it under the combined program so the efficiency factor  
22 goes up the more you can pre-route.  
23 **Q. And so that kind of leads us to needing to**  
24 **continue exploring and understanding what response times**  
25 **look like, what cutoffs look like. As we mentioned**

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1 **before, anything after 4:30 now is routed to the next**  
2 **day. I would also say that I think there's the**  
3 **potential to look at hours of operation. So we've**  
4 **talked about -- and you were able interested in shifting**  
5 **hours of operation earlier. I think it's possible that**  
6 **for Abandoned Materials, that doesn't seem to work very**  
7 **well, but it could work. There might be targeted areas.**  
8 **I think maybe a little bit more work needs to**  
9 **be done to assess just what the appropriate hours of**  
10 **operation are, and maybe there are differences in**  
11 **different places and having different crews starting at**  
12 **different times might mitigate some of the impacts that**  
13 **you're seeing.**  
14 A. They clearly don't have to all start at the  
15 same time even combined as long as they're both being  
16 picked up from. So there could be areas of the city  
17 where 6 o'clock might be extremely beneficial, and  
18 we've shifted a lot of our downtown work to night work.  
19 We are just really trying to stay of the heavily-  
20 impacted areas. And so when you're working through  
21 some of these denser areas of the city in the middle of  
22 the day, you just cut your efficiency basically in half  
23 from when you're working those areas when there's not so  
24 many people. So yeah, definitely that's something we  
25 should look at.

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| <p>1 MS. DAWSON: Okay. That's all that I have for<br/>2 now.<br/>3 DIRECTOR NURU: Okay. Mr. Baker, would you<br/>4 like to do cross-examination?<br/>5 MR. BAKER: No, I don't have anything right<br/>6 now.<br/>7 DIRECTOR NURU: Okay. The ratepayer Advocate,<br/>8 would you?<br/>9 No? Okay. Are there any other topics that<br/>10 you would like to cross-examine?<br/>11 MR. BAKER: No. That's all we have for today.<br/>12 DIRECTOR NURU: That's all you have for today?<br/>13 Okay. All right. Then I think we'll move<br/>14 into public comment period. Could I see hands of people<br/>15 wishing to speak?<br/>16 Okay. So I'll allow five minutes per person<br/>17 to comment. And since this is public comment, you do<br/>18 not need to be sworn in unless you intend to present<br/>19 material that you'd like to have placed into the record.<br/>20 And if that's the case, I'll have our clerk swear you<br/>21 in. Also when you come forward, please state your name<br/>22 so that the court reporter can enter it into the record.<br/>23 Thank you. And let the first speaker come<br/>24 forward.<br/>25 ///</p> <p style="text-align: right;">Page 718</p>   | <p>1 introduced, I think, three exhibits, but I don't think<br/>2 I've been sworn in. Did I need do that? I certainly<br/>3 get sworn at regularly, but I'm just wondering.<br/>4 DIRECTOR NURU: Swear him in.<br/>5 DAVID PILPEL,<br/>6 having first been duly sworn,<br/>7 was examined and testified as follows:<br/>8 MR. PILPEL: Formalities.<br/>9 And I appreciate in the Abandoned Material<br/>10 presentation the colored dots. I think that represents<br/>11 the Bluish community, and I think that's too good.<br/>12 I'm even wearing the shirt today.<br/>13 Moving back to some of the earlier items,<br/>14 I think the question was asked of Garth about the 25%<br/>15 capped increase. The 2013 Director's Report and Rate<br/>16 Order had a 25% cap for the first year, and I'm not<br/>17 sure what it did for the second year. Perhaps Staff<br/>18 can explore a 25% cap across the board for the various<br/>19 customers types if they see no change in service<br/>20 instead of the \$5 dollar credit for the 20-gallon<br/>21 customers, because there's some that have dis-<br/>22 -proportionate impacts and it might just limit the<br/>23 effect of the disproportionate increases.<br/>24 I think the question was also asked about the<br/>25 96-gallon black container. For the few customers on the</p> <p style="text-align: right;">Page 720</p>   |
| <p>1 PUBLIC COMMENT BY TOM WILLIAMS<br/>2 MR. WILLIAMS: Good morning. My name is<br/>3 Tom Williams. This morning, I wanted to address<br/>4 another aspect of the split-billing program. Thursday,<br/>5 I received a letter from Recology advising me there<br/>6 isn't a way to document a shared black can in our system<br/>7 with two accounts. I don't understand how the system<br/>8 can take care of split billing for the blue receptacles<br/>9 and the green receptacles but not the black receptacles.<br/>10 It doesn't make sense to me.<br/>11 Also, if we look at the chart that lists<br/>12 Recology's charges and we get to the policy statement in<br/>13 there about charging 150% of fees, they talk about the<br/>14 fees for access, for distance and for volume. And when<br/>15 it talks about volume, it doesn't make any distinction<br/>16 as to which type of container; so there's a disparity<br/>17 between the stated policy and the policy as executed.<br/>18 So therefore, this morning I want to request<br/>19 you to direct Recology to reconfigure their system to<br/>20 allow for billings -- split buildings the black<br/>21 receptacles. Thank you.<br/>22 DIRECTOR NURU: Thank you.<br/>23 Next speaker, please.<br/>24 PUBLIC COMMENT BY DAVID PILPEL<br/>25 MR. PILPEL: David Pilpel. I've already</p> <p style="text-align: right;">Page 719</p> | <p>1 residential side that use it, even if you incentivize or<br/>2 discourage the use of the 96-gallon black, it seems to<br/>3 me that it shouldn't necessarily go away as a container<br/>4 type because it's just going to result in a 64 and a 32<br/>5 for the same amount of material which results in two<br/>6 lifts, two pickups, rather than one; so it actually<br/>7 reduces efficiency and works against some of our<br/>8 efficiency goals notwithstanding the fact that they're<br/>9 waste generators. But perhaps Staff could further<br/>10 explore whether that can be kept as a container type<br/>11 even if it's discouraged.<br/>12 I think the R3 analysis was very clear and<br/>13 very helpful in understanding a lot of the details about<br/>14 the residential service mixes. As I've stated on a<br/>15 couple of other occasion, I don't think the minimum<br/>16 service requirements have been properly addressed here.<br/>17 If I understand correctly, it's currently a 16/16/4<br/>18 minimum service per residential unit and it's proposed<br/>19 to go to 16/16/8. If you apply that based on the number<br/>20 of units, the analysis should show that there are<br/>21 some -- not really single-family, but multi-unit<br/>22 buildings that are getting less than minimum service now<br/>23 and would certainly be getting less than the minimum<br/>24 service under the proposed increase. If Staff can<br/>25 examine that pretty carefully, I think that there -- as</p> <p style="text-align: right;">Page 721</p> |

|  |   |
|--|---|
| <p>1 I said before, I think that there really is revenue on<br/>2 the table that should be included in the base rate, and<br/>3 it's up to the Company to chase those customers and<br/>4 address their minimum service. But if single-family<br/>5 residents are being held to a 16 or 20 minimum with the<br/>6 attendant minimum on blue and green, I absolutely think<br/>7 that apartment customers should as well.<br/>8 In particular, the charts that R3 had today,<br/>9 Exhibits 88 and 89, some version of that I think should<br/>10 be included in the reporting requirements for the<br/>11 quarterly reports; so what the actual migration was to<br/>12 by account configuration. Not just the total numbers,<br/>13 but the particular configuration of service types should<br/>14 be reported on a quarterly basis so we can see how the<br/>15 actuals compared to what was projected. In fact, the<br/>16 report should show what was projected for that rate year<br/>17 or quarter and what the actuals were so the variance<br/>18 will be more obvious rather than waiting for the next<br/>19 rate cycle.<br/>20 In general, the idea is that if you use more,<br/>21 you should pay more. So to the extent that there is<br/>22 some disproportionality, that makes sense, and so I<br/>23 don't mind the large increases and large decreases if<br/>24 we're realigning the rates to better match the costs.<br/>25 That actually makes sense even if it's implemented over<br/>Page 722</p> | <p>1 I'm very impressed with the sophistication of<br/>2 the modeling that R3 has done. It's certainly better<br/>3 than anything I could do, and that's been helpful.<br/>4 It want to talk about the ZWI targets for a<br/>5 moment. The Staff Report -- and perhaps Staff can talk<br/>6 about this later. I pointed out that there was an error<br/>7 on page 28 in the Staff Report, the Recology's proposed<br/>8 targets. I think this was a first pass, but there were<br/>9 some errors in how that was presented and I think there<br/>10 needs to be a revised presentation of the ZWI proposed<br/>11 numbers. I do understand that the second chart with --<br/>12 on the bottom of 28 that shows how the ZWI targets would<br/>13 change if both Contingent Schedules are triggered is<br/>14 correct. I do note that the chart at the back of the R3<br/>15 attachment also shows this information in a slightly<br/>16 different way what -- and I would appreciate if R3 can<br/>17 just validate the numbers. They probably generated<br/>18 them.<br/>19 In any event, what strikes me in particular is<br/>20 that the dramatic change from the 409,000 tons disposed<br/>21 in 2016 to the 235-, almost 236,000 in Tier 4 for rate<br/>22 year '22, if both Contingent Schedules are triggered,<br/>23 results in like a 40% drop in disposed tonnage. That<br/>24 would be great if we achieve that. They get their ZWI<br/>25 numbers, Robert looks great, we all feel great.<br/>Page 724</p> |
| <p>1 time.<br/>2 The fixed and variable rate discussion has a<br/>3 lot of consequences. I think you can certainly argue<br/>4 that a lot of the labor costs are fixed. I would also<br/>5 argue that one of the labor costs related to the three<br/>6 collection streams could just as easily be allocated to<br/>7 those collection streams and recovered in that way and<br/>8 that the majority of all of the fixed costs should be<br/>9 for those things that are not related to the three<br/>10 streams, the general administrative, HHW, Gigantic 3,<br/>11 programs like that. And so I think there are different<br/>12 ways to look at fixed versus variable. It's not a<br/>13 single analysis, and to that extent, I don't really<br/>14 entirely agree with the Armanino report.<br/>15 Furthermore, I think the trend of the three<br/>16 streams -- the blue, black, and green -- processing<br/>17 and disposal costs are moving toward a similar range.<br/>18 Traditionally, black has been the lowest overall cost of<br/>19 collection, processing and disposal, with the green and<br/>20 blue being somewhat to significantly higher. As we get<br/>21 into the black processing and as the composting and<br/>22 recycling costs tend to not change as much, I think the<br/>23 black is increasing and the blue and green not as much;<br/>24 so the range of difference is smaller in the future and<br/>25 will likely to continue the trend that way.<br/>Page 723</p>                     | <p>1 The question is, is that realistic? Is<br/>2 there any way, given what we know and given what we<br/>3 can accomplish, that we would see a 40% reduction in<br/>4 actual disposed tons over that period? It's a great<br/>5 aspirational goal, but I think an appropriate question<br/>6 to Staff and the consultants is, is that really<br/>7 realistic? And how much risk is there? And that leads<br/>8 to the other point about the ZWI targets, is does this<br/>9 appropriately incentive the Companies to make the<br/>10 changes in programs' behavior technology to accomplish<br/>11 that? I mean, for the ZWI program to work, it's got to<br/>12 be a meaningful incentive for the Companies to change<br/>13 things, but also realistic. So there's tension there,<br/>14 and I'm not sure that we've fully explored both of those<br/>15 issues about realistic and achievable and yet desirable<br/>16 and the level of incentive.<br/>17 DIRECTOR NURU: I believe your time is up,<br/>18 sir.<br/>19 MR. PILPEL: Yeah, I always get there.<br/>20 We talked about organics tip fees. My<br/>21 colleague or friend Mr. Baker opened the door on the<br/>22 question of an adjusted O.R. given the level of risk.<br/>23 Perhaps we can explore that in the future.<br/>24 DIRECTOR NURU: Thank you.<br/>25 Next speaker, please.<br/>Page 725</p>   |

1 MR. PILPEL: Thank you very much.  
2 PUBLIC COMMENT BY TRACY THOMPSON  
3 MS. THOMPSON: Hi, thank you. My name is  
4 Tracy Thompson, and I want to first say that I do  
5 appreciate my garbage service immensely and what we're  
6 doing here in California.  
7 I'm a 20-gallon ratepayer and I'm a 20-gallon  
8 bin user and also a CRV "pilferer" because I decide  
9 to bring my CRV recyclables back to the redemption  
10 center, which isn't all that fun. So I just want to say  
11 that the ratepayers -- the rate application statement  
12 indicates that we will get a \$5 dollar credit, and I  
13 want to know how long will we be given this credit. And  
14 then after a certain amount of time, will it go away?  
15 And I don't know if that's already been established here  
16 when this was in discussion.  
17 I also want to add that the 20-gallon scenario  
18 is only for single-family residents, and I don't know  
19 if people aren't -- it seems like when this under  
20 discussion, it wasn't known if this was for everybody.  
21 But 20 gallons -- the bin is really for single-family  
22 residents who contract that out; so that's under  
23 Code 290.  
24 Also, keeping the 20-gallon bin is not  
25 about getting a 4-gallon benefit or discount or having  
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1 20 gallons versus 16 gallons. People who have used the  
2 20-gallon bin for the last, what, five or ten years are  
3 the ones who are not generating a lot of trash. These  
4 are the people who don't -- who haven't dragged the bin  
5 out to the sidewalk because they don't generate a lot of  
6 trash; so it's not really about us enjoying the savings  
7 or us enjoying a discount, it's about us making  
8 zero-waste goals according to the City. So after --  
9 it's really Recology who is getting a discount for not  
10 having to pick it up at the sidewalk, so it's not the  
11 20-gallon bin users who are getting the discount.  
12 I also want to say that regarding this risk  
13 associated with -- yeah, "risk" associated with compost  
14 stations such as Hay Road or Blossom Hill, whatever it  
15 it's called, it seems to me that in order to avoid this  
16 risk that is included in the rate application now, it  
17 would be behoove Recology to go and get a contract for  
18 future use and contract negotiations in place so that  
19 they have an idea of what that cost might be in the  
20 future instead of complaining that there's a risk and we  
21 won't be able to pass this on to ratepayers until the  
22 next application, so we're going to take a big loss in  
23 this risk. So I think that's that that's important to  
24 mention that any company who does business with other  
25 companies, you know, future contracts or production or  
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1 garbage planning would probably be a good idea, and  
2 that's really all I have to say. Thank you.  
3 DIRECTOR NURU: Thank you.  
4 Any other speakers?  
5 If that's the last speaker, then I will  
6 officially close public comment. And at this time  
7 I will continue this hearing to Wednesday, May 3rd, at  
8 8 o'clock in the same room, Room 400. We will pick up  
9 with the agenda items the we will list for that day.  
10 And again, I'd just like to thank everyone for  
11 participating in these proceedings and our meeting is  
12 adjourned.  
13 Thank you very much.  
14 (Ending time: 11:10 a.m.)  
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1 REPORTER'S CERTIFICATE  
2  
3  
4 I, MAXIMILLIAN A. CONTRERAS, CSR No. 13876,  
5 Certified Shorthand Reporter, certify:  
6 That the foregoing proceedings were  
7 stenographically reported by me at the time and place  
8 therein set forth and were thereafter transcribed;  
9 That the foregoing is a true and correct  
10 transcript of my shorthand notes so taken.  
11 I further certify that I am not a relative or  
12 employee of any attorney or any of the parties nor  
13 financially interested in the action.  
14 I declare under penalty of perjury under the  
15 laws of California that the foregoing is true and  
16 correct.  
17 Dated this 5th day of May, 2017.  
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MAXIMILLIAN A. CONTRERAS  
CSR NO. 13876  
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