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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 416
SAN FRANCISCO, CA 94102

Wednesday, March 22, 2017
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<p>1 received through the impound account. As always, we'll 2 reserve the last period for the public comment. You may 3 also convey your comments to the Ratepayer Advocate, who 4 I believe Dwayne is sick today, but someone is in 5 sitting. 6 Okay, one more thing. Title VI -- we do need 7 to make an announcement around Title VI. So Jose Pujol, 8 please read the Title VI script. 9 MR. PUJOL: Title VI of the Civil Rights Act 10 requires equal and equitable access to San Francisco 11 Public Works program activities and services. To 12 document that the Department is in compliance with the 13 Title VI, we ask that everyone attending and 14 participating in today's hearing complete a public 15 participation survey. 16 However, this survey is optional and 17 completing it is not required for participation. 18 The data that you provide will be analyzed and used 19 to ensure residents and stakeholders in the community 20 are involved in the refuse rate hearing process. 21 The information will not be used for any other purposes. 22 You will find a survey on the sign-in table. Please 23 place completed survey forms in the collection box. 24 Thank you. 25 DIRECTOR NURU: Okay. I think I also believe</p> <p style="text-align: right;">Page 247</p>	<p>1 MEGHAN BUTLER, 2 having first been duly sworn, 3 was examined and testified as follows: 4 MR. HUGHES: Can we have the -- 5 (Exhibit 35 is displayed.) 6 MR. HUGHES: Mr. Director, I did want to start 7 by noting that we have created some exhibits that 8 I think we talked about last Wednesday that have labels 9 on them consistent with how we went through the 10 testimony. I think for efficiency purposes, we'll mark 11 that maybe when we're not occupying this time. But 12 they're essentially the same exhibits as that we used 13 at the end of last Wednesday with the labels on them. 14 DIRECTOR NURU: Okay. Thank you. 15 MR. HUGHES: Mr. Quillen, Ms. Butler -- 16 Ms. Butler, although I think we'll start with 17 Mr. Quillen where we left off, in case you are going to 18 be answering some of the questions, now please tell us 19 your title with Recology and how long you've had that 20 position. 21 MS. BUTLER: I'm the Corporate Development 22 Manager, and I've had these responsibilities for about 23 the last two years. 24 MR. HUGHES: And what are the relevant 25 responsibilities that you have for purposes of these</p> <p style="text-align: right;">Page 249</p>
<p>1 that we have an exhibit that we need to introduce. 2 MR. PRADHAN: Yes. So at the public comment 3 at the least hearing, a gentleman whose name I don't 4 recall -- 5 MS. DAWSON: Marc Christensen. 6 MR. PRADHAN: Marc Christensen, thank you. 7 -- distributed a sticker. And so I've made a 8 copy of that sticker, and it is a one-page document 9 which will be entered into the record as Exhibit 34. 10 (Exhibit 34, "Recycling Theft Sticker 11 [Public]," was admitted into evidence.) 12 DIRECTOR NURU: Okay. I believe we left off 13 with the two contingent schedules. Is Recology counsel 14 ready to proceed with its -- 15 MR. HUGHES: Yes, Mr. Director. 16 MS. DAWSON: All right. 17 MR. HUGHES: We will recall Mr. Maurice 18 Quillen and also at the same time ask Meghan Butler to 19 join him. 20 (Ms. Butler and Mr. Quillen step up to the 21 witness stand.) 22 DIRECTOR NURU: Jose, can you swear in Meghan, 23 please. 24 /// 25 ///</p> <p style="text-align: right;">Page 248</p>	<p>1 rate hearings? 2 MS. BUTLER: They mainly consist of managing 3 facility development projects, as well as stationary 4 equipment enhancement projects for the San Francisco 5 region. 6 MR. HUGHES: And you're knowledgeable about 7 the planning activities and environmental review and the 8 cost information; is that right? 9 MS. BUTLER: Yes. 10 MAURICE QUILLEN, 11 having been previously duly sworn, 12 was examined and testified as follows: 13 DIRECT EXAMINATION 14 BY MR. HUGHES: 15 Q. Okay. Mr. Quillen, welcome back. 16 Where we left off last Wednesday, we were 17 going to talk about the projects that are contemplated 18 schedules. And let's start with the Contingent 19 Schedules No. 1, which is the new iMRF project. 20 Can you describe that project for us, please. 21 A. Yes. The Contingent Schedule No. 1 is the 22 relocation of the iMRF from Tunnel Beatty to the Port 23 of San Francisco, the Pier 96 facility. And this would 24 be -- the construction and relocation of our C&D 25 facility that we call the "iMRF" into a 110,000 square</p> <p style="text-align: right;">Page 250</p>

1 foot shed at the Port of San Francisco.
2 MS. DAWSON: Could Mr. Quillen please explain
3 for the benefit of the record what an "iMRF" is and what
4 "C&D" is.
5 THE WITNESS: The "iMRF" is "Integrated
6 Material Recovery Facility," and "C&D" is "Construction
7 and Demolition Debris."
8 MR. HUGHES: We have on the screen a picture,
9 a diagram -- a rendering of the new facility.
10 I'd like to mark a paper copy of that into the
11 record as Exhibit 35.
12 MR. PRADHAN: Admitted.
13 (Exhibit 35, "iMRF Renderings [Recology],"
14 was admitted into evidence.)
15 MR. HUGHES: We have a -- I realize that I
16 just didn't mark the labeled one, but we'll correct that
17 at the break.
18 BY MR. HUGHES:
19 **Q. But why don't you describe for us,**
20 **Mr. Quillen, what it is that we're looking at with**
21 **Exhibit 35, please.**
22 A. This is a picture of the proposed iMRF at
23 Pier 96. There's three buildings that are on this
24 image. The building in the back is Recycle Central at
25 Pier 96. The building in the middle with the blue trim

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1 is the proposed iMRF structure. And the smaller
2 building to the right of the photo is an existing
3 structure at the Port of San Francisco. It's called a
4 "Maintenance and Repair Building," and it's
5 approximately a 24,000 square foot shed.
6 **Q. Where is the current iMRF located?**
7 A. Currently the iMRF sits adjacent to the
8 transfer station at Tunnel Beatty.
9 **Q. What activities are conducted there?**
10 A. It's our construction and demolition debris
11 processing facility.
12 **Q. Are there other types of material other than**
13 **construction/demolition material that is processed at**
14 **the Tunnel Beatty facility?**
15 A. Tunnel Beatty currently houses our Public
16 Reuse and Recycling Area. The transfer station we
17 process the trash is also housed there, and then there's
18 the Construction & Demolition debris operation.
19 **Q. All right. And what is the permitted amount**
20 **of material that is allowed to go -- the volume of**
21 **material that is permitted to go through the current**
22 **iMRF facility at Tunnel Beatty?**
23 A. I believe the existing permitted capacities
24 for the iMRF are upwards through 800 tons. The designed
25 capacity for it is different than the permitted

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1 capacity. It was designed for a 400-ton-a-day
2 operation, and currently we're seeing tonnage number
3 upwards of 600 tons per day for that facility.
4 **Q. And what is going to be the capacity of the**
5 **projected new iMRF at Pier 96?**
6 A. The new iMRF facility will have a projected
7 throughput of approximately 1,000 tons per day.
8 **Q. The space on which the proposed new building**
9 **is going placed at Pier 96. Currently whose land is**
10 **that?**
11 A. The land is owned by the City and County of
12 San Francisco, the Port of San Francisco.
13 **Q. And does Recology currently have a lease for**
14 **that space?**
15 A. Currently Recology has a lease for a portion
16 of the space. The eastern side of the building is
17 contemplated to be constructed on our employee parking
18 lot, and the western side of the property, we currently
19 do not have a lease for.
20 **Q. And what is the status of discussions about**
21 **leasing the remainder of the property to facilitate the**
22 **construction of this new building?**
23 A. We've been in discussions with the Port of
24 San Francisco. Last week we did a presentation to the
25 Port commission. At this point, we are in the process

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1 of negotiating an exclusive negotiating agreement with
2 the Port of San Francisco. Once we get that document
3 finalized, we'll be moving to a term sheet. Type of
4 negotiations upon completion of the term sheet, we'll
5 be back to the Port of San Francisco for approval by the
6 Port commissioners.
7 **Q. And what are the advantages of the new iMRF**
8 **facility that Recology envisions?**
9 A. Well the new iMRF, as compared to the the old
10 iMRF, will represent what we consider the "state of the
11 art" technology. The existing system relies very
12 heavily on manual sorting. Essentially, the material
13 that comes from our route trucks and the public goes
14 across a conveyor belt. We have a shaker screen that
15 takes out fines. And beyond that, everything that we
16 process on that line is manually sorted.
17 The new iMRF will be similar inasmuch as that
18 we will have a manual sorting component, but we will
19 also employ much more elaborate automated sorting
20 techniques. Once the material goes through the initial
21 manual sort, it will go into a size reducer which
22 essentially is a shredder. And at that point, the
23 shredded or sized reduced material would run through a
24 series of ballistic separators which use air to separate
25 material, shaker screens, and optical sorters and

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1 magnets.
2 So the majority of the processing will be
3 automated as opposed to a complete manual operation.
4 **Q. And are there advantages to this equipment in**
5 **terms of the diversion rates that you expect?**
6 A. The diversion rate for the iMRF is 50%.
7 The new equipment, we believe, will be capable of
8 producing 70% diversion. So it's a 20% basis point
9 increase, but it's nearly a 40% increase in actual
10 diversion.
11 MR. HUGHES: Let's take look at some of the
12 equipment that is contemplated to be part of the new
13 building. I'd like to mark as Exhibit 36 a rendering of
14 some of the equipment in the building.
15 MR. PRADHAN: Admitted.
16 (Exhibit 36, "iMRF Equipment Map [Recology],"
17 was admitted into evidence.)
18 (Exhibit 36 is displayed.)
19 BY MR. HUGHES:
20 **Q. Can you walk us through what Exhibit 36 is,**
21 **Mr. Quillen, please, just at a high level.**
22 A. At a high level, this represents the equipment
23 installation that we are proposing for the iMRF at
24 Pier 96. It consists of two C&D sorting lines that run
25 parallel to each other. We'll have the ability to

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1 process 500 tons per day, giving us the 1,000-ton-per-
2 -day capacity. Approximately 250 tons per line per
3 shift is what we're trying accomplish with this
4 equipment installation.
5 And essentially, the material goes through the
6 in-feed system. It will hit a vibratory screen that
7 will shake out all of the fine material, and then the
8 material would run through a manual sort where we
9 process by hand the wood, metal, concrete, large rigid
10 plastics, things of that sort.
11 And then at the end of that line is the
12 shredder or the "Size Reducer," which would take all
13 the material not recovered by the manual sorting and
14 reintroduce it into the automated portion of the system.
15 And essentially that automated portion of the system
16 starts on the lower right-hand side of the picture
17 with the debris roll screens, which are essentially a
18 very modern fine-separation technology. We then have
19 the density separators, which I referred to earlier as
20 the "ballistic separators." And then optical sorters
21 with magnets at the end.
22 **Q. You mentioned that the Public Reuse and**
23 **Recovery facility, with the public debris material**
24 **that's brought to Tunnel Beatty, is sorted manually.**
25 **Is this equipment going to be able to process that**

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1 **material?**
2 A. Yes. In addition to the iMRF at Tunnel
3 Beatty, we also received public material at our Public
4 Reuse and Recycling Area. We operate a very old
5 single line called a "Ptarmigan line," where we manually
6 sort the PRRA material.
7 When we initiate the process with the
8 relocation and finalize equipment installation, we will
9 continue to receive material at the PRRA and do some
10 very simple sorting. But the majority of the material
11 from the PRRA will find its way to the new iMRF; so it
12 is our intention to process the C&D material as well as
13 the PRRA material on this new system.
14 MS. DAWSON: And "PRRA" stands for?
15 THE WITNESS: Public Reuse and Recycling Area.
16 MS. DAWSON: Thank you.
17 MR. HUGHES: I think I was going to turn my
18 attention next to the trash processing contingent
19 schedule. What I intended to do was to finish with
20 Mr. Quillen on sort of what the new facilities would do,
21 and then go back with Ms. Butler and talk about planning
22 and costs.
23 If the City has questions for Mr. Quillen on
24 the iMRF now, we can do that, otherwise I'll go through
25 with the next.

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1 MS. DAWSON: Why don't we continue with
2 Ms. Butler but have Mr. Quillen stay with us while we
3 continue.
4 MR. HUGHES: Very good.
5 BY MR. HUGHES:
6 **Q. Mr. Quillen, can you tell us what is**
7 **contemplated by the Contingent Schedule No. 2, the**
8 **trash processing facility at Tunnel Beatty?**
9 A. The second contingent schedule at Tunnel
10 Beatty is the black cart processing equipment or system.
11 The Recology companies intend to locate the iMRF at the
12 Port of San Francisco. Upon completing that relocation,
13 that leaves a 46,000 square foot building at Tunnel
14 Beatty which we intend to repurpose into our black bin
15 processing equipment.
16 **Q. And you talked last week a little bit about**
17 **the trash processing pilot that is contemplated,**
18 **I gathered, to do about a hundred tons of the black bin**
19 **material a day; is that right?**
20 A. Correct.
21 **Q. And trash processing facility that you**
22 **contemplate that would be located in the current iMRF**
23 **facility at Tunnel Beatty would process how much of the**
24 **black bin?**
25 A. It's our intention to process 100% of all the

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1 route-based black bin material at the new facility.
2 **Q. And what type of equipment have you**
3 **contemplated putting into the trash processing facility**
4 **at Tunnel Beatty?**
5 A. Essentially the new equipment at the trash
6 processing facility will be based upon the pilot
7 equipment. We are looking at employing size-reducing
8 technology to shred all the material that comes in from
9 the route truck. We would use a very elaborate
10 screening system to take the material and separate
11 it into the smaller-than-four-inch fraction and over-
12 -four-inch fraction.
13 The material that would be over four inches
14 would then be subjected to almost an identical process
15 where we would employ optical sorters, ballistic
16 separators, and a little bit of manual sorting, in an
17 effort to recover as much material as possible from the
18 trash.
19 **Q. Is it fair to say that at this point what**
20 **you're really contemplating is scaling up pretty much**
21 **the same type of equipment you're contemplating for the**
22 **pilot right now?**
23 A. Yes.
24 MR. HUGHES: Let's take a look, if we could,
25 at the equipment that you're contemplating for the trash

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1 processing facility. I'd like to mark this as
2 Exhibit 37, if we could.
3 (Exhibit 37 is displayed.)
4 BY MR. HUGHES:
5 **Q. I recognize Exhibit 37's got a lot of small**
6 **images and words on it. But can you tell us generally**
7 **what Exhibit 37 is showing us.**
8 A. Exhibit 37 is the zero waste processing
9 equipment layout schematic that was set up for us by
10 Van Dyk Baler. And it is a representation of all the
11 equipment that we will be placing in the new facility
12 to process the trash.
13 **Q. And you mentioned -- you talked a little bit**
14 **when we talked about the pilot about what you're**
15 **expecting this equipment is going to be capable of from**
16 **a diversion perspective. Can you remind us again when**
17 **you get full-scale, what percentage of the material is**
18 **it that you're expecting to be able to recover the black**
19 **bin.**
20 A. Well, currently with the pilot, we have an
21 expectation to recover approximately 25% of the
22 material. We would assume that we would have similar
23 levels of recovery with the new system. We are also
24 hoping that over the course of the next few years, we'll
25 start to understand a bit more about the product that

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1 we'll be sorting out of the trash, potentially allowing
2 us to generate additional diversion.
3 **Q. And do you contemplate the possibility of**
4 **increasing that diversion with the advent of either**
5 **new technologies or new markets?**
6 A. Well, the technology that currently exists
7 that is changing every day -- you know, this is a
8 European approach to trash processing that's currently
9 employed in other recycling facilities. We would
10 suspect that within the next two years, there may be
11 some improvements in technology that we could
12 incorporate into this design. At this point, we
13 don't believe that there is much else that we could
14 potentially incorporate into this design.
15 From the marketing standpoint, we understand
16 our existing markets. The fiber markets are very
17 strong. We sell a very good product into the market.
18 The material that we'll be recovering from the waste
19 stream as a result of the pilot will be fundamentally
20 different. So as we operate the pilot, the expectation
21 is that we will learn a lot more about the material that
22 we will be recovering from the trash.
23 We're hoping that at some point, technology
24 and the markets will mature and will allow us to get
25 more product into the marketplace. And I think it's

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1 important to understand that this type of equipment is
2 necessary for us to contemplate making any sort of
3 movement toward zero waste. While we may not be able
4 to commit to high levels of diversion now, we do believe
5 that more material will become marketable in the future
6 as the markets understand what the products'
7 characteristics are.
8 **Q. And with the implementation of Contingent**
9 **Schedule 1 and Contingent Schedule 2, if approved, does**
10 **Recology contemplate being able to do some processing of**
11 **all of the waste stream that it handles for the city?**
12 A. The pilot process -- the pilot zero waste
13 project will process 100 tons per day. The actual
14 zero waste facility will process all of the trash that
15 we get from the route trucks.
16 We will actually be relying on the transfer
17 station and the Pit, where all the trash currently goes,
18 to warehouse the material, and we would use a series of
19 excavators to take the material out of the Pit and
20 introduce it into the system.
21 **Q. All right. Well, that's all I wanted to do by**
22 **way of generally introducing these capital projects, and**
23 **I thought I'd turned to planning.**
24 MR. PRADHAN: Before we move on, just for the
25 record, this one-page rendering will be marked

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1 Exhibit 37 and admitted for the record.
2 (Exhibit 37, "Trash Processing Equipment
3 [Recology]," was admitted into evidence.)
4 MR. HUGHES: Thank you.
5 DIRECTOR NURU: And did you want to
6 cross-examine?
7 MS. DAWSON: I do some have some programmatic
8 questions.
9 CROSS-EXAMINATION
10 BY MS. DAWSON:
11 **Q. So just to kind of address the linkage**
12 **between trash processing pilot and this trash processing**
13 **full implementation in Contingent 2, so in the rate**
14 **application you have \$3.2 million-worth of equipment**
15 **with a 10-year depreciation.**
16 **What happens to this equipment as you**
17 **transition from the pilot to a more full-scale? Are you**
18 **envisioning that you would be relocating it? What about**
19 **the head count that might be associated with that work?**
20 A. So the equipment that we would be acquiring
21 for the pilot would have the potential to be relocated
22 or potentially reused on site. In a worst case
23 scenario, we could sell the equipment in the event that
24 we did not need it.
25 In regards to the head count for the pilot,

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1 we are looking at repurposing some existing head count
2 in our facility to operate that system. As I had
3 mentioned earlier, it's going to be a fairly automated
4 system, so we are not anticipating much head count as
5 a result of this process.
6 **Q. Can you speak a little bit to your anticipated**
7 **reduction in landfill disposal costs? So if you're**
8 **actually processing all the trash and you're**
9 **anticipating you'd set a 25% diversion, what does that**
10 **mean in terms of both -- I mean, you spoke a little bit**
11 **about the commodities that'll be recoverable and maybe**
12 **future commodities, but you really didn't speak at all**
13 **to how many fewer trips to the landfill you might have**
14 **as a result of this new equipment. And is that**
15 **reduction assumed in the contingent schedule you**
16 **developed?**
17 A. In the most simple terms, every load of
18 trash we haul to the landfill is approximately 25 tons.
19 So for every 25 tons of diversion that we can get out of
20 the waste stream, that represents one less load to the
21 landfill. When we look at the pilot program for the
22 zero waste trash processing, it's approximately one load
23 of trash less going to the landfill. When we look at
24 the C&D operation and the iMRF, in the event that we
25 complete that equipment installation and build the

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1 building, it represents a 20% increase in our disposal.
2 We currently process 600 tons a day through
3 the iMRF. Assuming that we have 20% more recycling,
4 that would be six less trucks to the landfill -- just
5 real high-level numbers. The zero waste processing
6 equipment that we would be contemplating installing
7 here, potentially if we did 800 tons of 25% diversion,
8 that's 200 tons of material a day that we could pull out
9 of the landfill. And at that point, it's another almost
10 seven truck-trips-per-day reduction.
11 So while the pilot wouldn't have much in the
12 way of landfill or truck trip reductions, it would give
13 us a lot of information about the materials. But the
14 contingent schedules associated with the iMRF and the
15 zero waste trash processing would significantly reduce
16 the number of trucks that we send to the landfill on a
17 daily basis.
18 **Q. Are there any operating costs associated with**
19 **the trash processing in Contingent Schedule 2 in terms**
20 **of head count?**
21 A. Yes, there are.
22 **Q. Could you speak more to that?**
23 A. I have to go into the schedules -- the
24 contingent schedule.
25 For the trash processing system, we are

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1 contemplating 50 additional head count. There would be
2 4 managers for the facility, 2 drivers, and 44 sorters.
3 **Q. And can you describe a little bit about how**
4 **you imagine that operation as working -- how many shifts**
5 **you're going to be doing, that kind of thing?**
6 A. We would be operating that piece of equipment
7 five days a week at a minimum. We would be operating at
8 two full shifts; so approximately 25 people per shift.
9 **Q. So if Recology is still kind of looking at the**
10 **operational viability of some of those technologies to**
11 **recover material from the black bin, how did you decide**
12 **on what you put in terms of your proposal for the**
13 **equipment in Contingent Schedule 2?**
14 A. The equipment that we're contemplating in the
15 zero waste processing equipment is essentially what's
16 being used in other areas to process trash. It's a
17 little bit larger than what a typical installation might
18 be, and it is representative of, I think, the most
19 modern, best available trash processing technology.
20 MS. DAWSON: That's all the questions I have
21 for now.
22 MEGHAN BUTLER,
23 having been previously duly sworn,
24 was examined and testified as follows:
25 ///

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1 DIRECT EXAMINATION
2 BY MR. HUGHES:
3 **Q. Ms. Butler, I'd like to talk a little bit**
4 **about the planning that's gone into the four capital**
5 **projects that we've talked about over the last couple of**
6 **day. Why don't we -- in particular, we'll start with**
7 **talking about the West Wing project that Mr. Quillen**
8 **talked about last week.**
9 **But before getting into the specifics of that,**
10 **can you walk us through at sort of a high level what the**
11 **stages of planning are in terms of the Company putting**
12 **in a new project?**
13 A. Sure. So of course every project will be a
14 little bit different dependent on its scope as well as
15 the specific project elements associated with it. But
16 in general, a capital construction project will start
17 with an idea that's then vetted with all of the
18 different stakeholders to validate its importance.
19 Once it has the support and we decide that
20 it's important to move forward, we'll start working on
21 what we call "conceptual design" for that project, and
22 that includes identifying the specific project location,
23 the specific operations that will need to happen as a
24 part of that project. It includes several site visits
25 to inform ourselves about any site constraints as well

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1 as any utilities that are or are not available for that
2 project.
3 It also includes bringing the equipment
4 vendors into the conversation so that we can talk about
5 what the goals of that project are, what the throughput
6 and processing needs are for that project, and then
7 that informs any building accommodations that need to
8 occur as well as the support facilities that are needed
9 such as offices, break rooms, restrooms, traffic flow,
10 et cetera.
11 **Q. When you're doing this conceptual design**
12 **work, does that also involve design professionals like**
13 **architects and others?**
14 A. Oftentimes it can, yes. And oftentimes it's
15 necessary so that we can get adequate costs from things
16 such as what utilities do we need to bring in, what type
17 of fire sprinklers, plumbing, et cetera. From that
18 conceptual design, then that's used to inform a capital
19 cost estimate, which essentially puts together the
20 anticipated costs not only for the construction and
21 equipment purchase, but also for any of the detailed
22 design process or permitting that's needed to move the
23 project forward.
24 Then at that point --
25 **Q. And have you been involved in that capital**

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1 **cost-estimating process for the projects that we've been**
2 **talking about in the rate application?**
3 A. Yes.
4 **Q. Okay. And then after the cost estimating,**
5 **then what?**
6 A. Sure. Typically we're then at a point where
7 we can submit for the appropriate environmental review,
8 or CEQA, for that project. At that the point, typically
9 that process takes several months, if not, years to go
10 through; so we often in parallel begin to go through
11 the detailed design process, which then takes that
12 conceptual design I just talked about and brings it
13 down into the level of detail where you have specific
14 drawings for civil, mechanical, structural,
15 architectural -- all of the elements that you need to
16 move forward with the construction of the project.
17 **Q. And what are the governmental agencies that**
18 **you're working with for the environmental review**
19 **process?**
20 A. Again, it depends on the specific project.
21 But typically it works with the Planning Department for
22 the environmental review, and then when you get into the
23 building permit process, that's with the Department of
24 Building Inspection.
25 **Q. Okay. So you're at the environmental review**

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1 **stage. What's the next stage?**
2 A. So at the conclusion of the environmental
3 review as well as at the conclusion of the detailed
4 design process, we're typically at a point where we can
5 submit for the building permits. We're also at a point
6 where we then can send out that design package, because
7 it's now fully designed, for a bid process. And in that
8 process, we'll typically receive several proposals from
9 bidders and then Recology will select a specific company
10 based on a number of different criteria, and then
11 eventually execute a contract with that company for the
12 construction based on that now fully-designed project.
13 **Q. Is that the general contractor?**
14 A. Yes, typically.
15 And then once the building permits are
16 approved, we can begin construction.
17 **Q. And what about for the subcontracts? What's**
18 **the process involved for making sure that you got the**
19 **costs right on that?**
20 A. Sure. And again, it depends on the specific
21 project. But for example, in the West Wing, there's a
22 competitive subcontracting process. So a general
23 contractor we went out to bid for, got several different
24 bidders on that, and then went through a competitive
25 subcontracting process where subcontractors bid on each

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1 of the individual elements of the project that they were
2 responsible for.
3 **Q. I think we're going talk a little bit about a**
4 **concept of a guaranteed maximum price. Can you tell us**
5 **how that concept fits in with this planning work?**
6 A. Sure. For Recology and the contracts that we
7 typically execute, we have a Guaranteed Maximum Price
8 which we call a "GMP" as a part of that contract.
9 **Q. "GMP"?**
10 A. GMP, "Guaranteed Maximum Price."
11 And what that is is between -- in the contract
12 between Recology and the selected general contractor,
13 the contractor has to take the fully-designed project
14 and all aspects of the site, you know, including the
15 geotechnical reports, the equipment that's going to go
16 in, and they have to put together a price that they
17 guarantee will be the maximum price for that project.
18 You cannot exceed that maximum price unless there is for
19 some reason an excused event that allows you to go other
20 that, but Recology is typically pretty strict on what
21 those excused events are.
22 **Q. Okay. Have you now sort of generally**
23 **described the stages and elements of the planning**
24 **process?**
25 A. Yes.

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1 **Q. Okay. So why don't you now tell us given that**
2 **background and overview where is Recology in terms of**
3 **its planning for the West Wing project for the**
4 **processing of organics at Tunnel Beatty.**
5 A. We have completed the majority of all of those
6 steps that I walked through. We have gotten an approved
7 site plan for the project and we submitted for the full
8 building permits back in January. We've also gone out
9 to bid on the project and selected a general contractor
10 that we have executed a contract with.
11 **Q. And where are you in the environmental review**
12 **process for the West Wing?**
13 A. That's been completed.
14 **Q. And what about for the building review -- the**
15 **planning review for the building permits?**
16 A. The building permits is in process.
17 So typically in a building permit process, there'll be
18 rounds of comments that you get from the Department of
19 Building Inspection that you then respond to. There's
20 most times several iterations. We have gone through a
21 couple of those iterations and we do expect the permits
22 to be approved in the next couple of months.
23 **Q. And in terms of working with the contractors**
24 **and the people who will be involved in the construction,**
25 **where are you with that?**

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1 A. We've executed a contract with the general
2 contractor, and the subcontracting bidding process is
3 concluding this week.
4 **Q. And at what point will you be in a position to**
5 **have the guaranteed maximum price that you talked about?**
6 A. We started negotiating that with the general
7 contractor, and I would expect in the next couple of
8 weeks that will conclude and there will be a guaranteed
9 maximum price for the West Wing project that will be a
10 part of the contract.
11 **Q. Okay. And in the rate application, is there**
12 **included in that a cost for the project?**
13 A. Yes.
14 **Q. And were you involved in preparing that?**
15 A. Yes.
16 MR. HUGHES: Let's mark, if we could --
17 I think it's Exhibit 38, which is part of Exhibit Tab K
18 to the rate application.
19 MR. PRADHAN: Admitted.
20 (Exhibit 38, "West Wing Summary Costs
21 [Recology]," was admitted into evidence.)
22 (Exhibit 38 is displayed.)
23 BY MR. HUGHES:
24 **Q. We're not going to get the whole document to**
25 **start with, but what I thought we would do is have you**

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1 **identify what this document is and what went into its**
2 **preparation. I recognize we can't see it very well on**
3 **the screen, but we've handed out copies of the document.**
4 **Can you tell us what this is?**
5 A. These are the project costs for the West Wing.
6 **Q. And what are the total project costs estimated**
7 **for the West Wing?**
8 A. \$18,857,170 dollars.
9 **Q. And can you walk us through just the general**
10 **components of this project cost.**
11 A. Sure. So all of the these line items are the
12 different elements involved in the construction process
13 for the project, both direct and indirect costs. They
14 also include the soft costs which are your insurances,
15 your overhead and profit with the general contractor,
16 your contingencies, to get you to a total construction
17 cost, which is just other \$17 million dollars for this
18 project. That's then added to your design and
19 engineering costs, as well as your special inspection
20 and permitting costs to get you to the total project
21 cost.
22 **Q. And when we look at this sheet, where we see**
23 **the tabular form with all of the lines in the tables,**
24 **who generated that information?**
25 A. The general contractor.

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1 **Q. And below the table information, who generated**
2 **that?**
3 A. Below the "Total (Construction)" line, the
4 "Design/Engineering" cost is a direct quote from the
5 design team, which is comprised of the architect as well
6 as the engineers for the project.
7 The special "Inspections" cost are from a
8 quote a company that goes by CEL that does special
9 inspections for these types of projects.
10 And the "Permit" costs are a general rule of
11 thumb that's a percentage of the overall construction
12 costs.
13 **Q. What steps did Recology take to make sure**
14 **that it was getting fair pricing on this project that**
15 **is proposed?**
16 A. As I mentioned earlier, we did go through a
17 bidding process. We put out a request for proposals for
18 the construction management and general contracting
19 portion of this project. We received three proposals
20 from three different companies for that work.
21 Recology reviewed those and based on a number
22 of different criterias, selected the general contractor
23 that we have now had an executed contract with. At that
24 point, the general contractor put together a project
25 cost based on the fully-designed West Wing project,

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1 and those costs were also -- the fully-designed project
2 was also sent to a third-party cost estimator that goes
3 by TBD Consultants. We also asked them to put together
4 a full construction cost for the project so that we
5 could compare the two to ensure that we were getting
6 reasonable costs for the West Wing project.
7 **Q. Do you have a general understanding of what**
8 **went into that comparison to give you the idea of**
9 **whether you were in the right ballpark for this?**
10 A. Yes. So there were several meetings that
11 occurred and several different iterations of different
12 components of this project and the costs associated with
13 it, and there were several changes that were made based
14 on conversations between the cost estimator, the general
15 contractor and Recology.
16 **Q. And based on the amount of work that has**
17 **gone into the planning and the cost-estimating for**
18 **the West Wing project, what's your degree of confidence**
19 **in the budget you put forth in this Exhibit 38?**
20 A. Through conversations with the general
21 contractor as we're approaching the guaranteed maximum
22 price in which we've learned that these costs are right
23 in line with what the guaranteed maximum price looks
24 like it's going to come out to be, we're fairly
25 confident that based on what we know about the project

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1 today and all the work that we've put into it, that
2 these are accurate costs for the project.
3 That being said, there are always events that
4 happen in construction that are unknown or unforeseen
5 that could cause these costs to change. But you know,
6 we do believe we put appropriate planning into it that
7 these are acceptable pricing.
8 MR. HUGHES: I want to talk a little bit about
9 the project timeline with you and mark as Exhibit 39
10 four pages of project timeline information.
11 MR. PRADHAN: Admitted.
12 (Exhibit 39, "San Francisco Facilities
13 Timeline [Recology]," was admitted into
14 evidence.)
15 (Exhibit 39 is displayed.)
16 BY MR. HUGHES:
17 **Q. Okay, Ms. Butler, Exhibit 39 is four pages.**
18 **It has project timeline information and each of the**
19 **pages sort of builds on the projects we're going to be**
20 **talking about. But the first one relates to the**
21 **West Wing. Can you orient us toward what this document**
22 **is showing?**
23 A. Yes. This is a timeline for the West Wing,
24 starting at the beginning of the year. As I mentioned
25 earlier, we did receive an approved site permit for the

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1 project. That was towards the end of 2016, and then
2 on January 5th, we submitted for our building permits.
3 We anticipate those to be approved in the next couple of
4 months, which will then allow us to begin construction.
5 Construction is anticipated to be about a 13- to 14-
6 -month process, so we anticipate it being complete by
7 September of 2018.
8 **Q. You mentioned that the environmental review**
9 **process has completed. Are there still appeals that**
10 **could be filed or is everything done on the**
11 **environmental review?**
12 A. Not at this time.
13 **Q. They --**
14 A. They cannot be appealed. There was a
15 opportunity for appeals during the process, but that
16 time is now passed.
17 **Q. All right. And so based on this then, if the**
18 **project went forward as it's being proposed, it would be**
19 **complete and ready to be operational when?**
20 A. By September of 2018.
21 **Q. All right. Let's turn our attention to sort**
22 **of a similar kind of discussion, but about the first**
23 **contingent schedule, the Integrated Material Recovery**
24 **Facility that's anticipated to be at Pier 96.**
25 **Keeping in mind the discussion you had walked**

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1 **us through in terms of the planning steps, can you tell**
2 **us where the Company is in its planning for that**
3 **facility?**
4 A. The Company has completed the development of
5 a conceptual design and the associated capital cost
6 estimate for that project.
7 **Q. So what are the steps that remain then for**
8 **that project from a planning perspective?**
9 A. The project needs to go through its
10 appropriate environmental review. It also needs to go
11 through the detailed design process, and from there it
12 will need to go through the building permit process,
13 and somewhere in that period, likely earlier rather than
14 later, we will like to go out to bid with the detailed
15 design for the projects so that we can get the total
16 project costs for the iMRF.
17 MR. HUGHES: Okay. Let's talk about the
18 projects costs then for a moment.
19 I'd like to mark as Exhibit 40 a document that
20 is part of Tab K to the rate application that is
21 entitled "Cost Estimate iMRF Facility."
22 MR. PRADHAN: That will be admitted as
23 Exhibit 40.
24 (Exhibit 40, "iMRF Facility Cost Estimate
25 [Recology]" was admitted into evidence.)

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1 BY MR. HUGHES:
2 **Q. I think unless I hear objections, I won't try**
3 **this on the ELMO because I don't think that showed very**
4 **well. But we have in front of us now Exhibit 40.**
5 **Can you tell us what this document is and how**
6 **it was prepared?**
7 A. This is cost estimate for the iMRF, which
8 is Contingent Schedule 1. And to put this together,
9 Recology hired a third-party consulting team. That
10 consulting team comprised of a project management firm,
11 an engineering firm, as well as solid waste experts in
12 the industry. Together, that consulting team in
13 coordination with Recology as well as in coordination
14 with a couple of different equipment vendors put
15 together the conceptual design.
16 As I mentioned earlier, that includes a lot of
17 steps including site visits as well as equipment layout
18 orientation so we can see how the process flow works.
19 That informs how the traffic flow is going to go, what
20 tipping floor area we need, how the commodities are
21 going to be outloaded efficiently, and also informs what
22 type of support facilities we need such as scales,
23 restrooms, break rooms, office space, et cetera.
24 That conceptual design was then finalized
25 through a couple of different iterations by sitting down

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1 with Recology and the larger team, and then that was
2 used to inform this cost estimate that we have here in
3 front of us.
4 **Q. Okay. And following through Exhibit 40, I**
5 **see that there are some shaded and I don't know if**
6 **that's orange or something -- some major headings,**
7 **it looks like, of the different cost elements; the first**
8 **one being "Design," it looks like. Are the items under**
9 **the Design heading the estimated design costs for the**
10 **iMRF facility?**
11 A. It's the estimated costs for the detailed
12 design of the iMRF facility.
13 **Q. And from your perspective, in terms of the**
14 **planning work you've done, do you feel that you have**
15 **with reasonable certainty the ability to project those**
16 **kinds of costs?**
17 A. At this stage in the project and the way
18 that we went about coming up with these costs is the
19 consulting team use their decades of experience doing
20 construction management as well as engineering work,
21 but they also had consultations with local Bay Area
22 general contractors that have completed projects in the
23 recent years that are of similar size and similar
24 complexity to what we're contemplating here.
25 They then looked at the total capital that was

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1 spent for those entire projects, so from design through
2 the end of construction, and then looked at the amount
3 of that total capital that was spent on detailed design
4 and permitting. And then they took those associated
5 percentages, which you can see listed here in the cost
6 estimate, and applied them to this project to get us the
7 anticipated costs for both the detailed design and the
8 permitting.
9 **Q. Okay. And it looks like "Construction" is**
10 **maybe the bulk of the expense for this project; is that**
11 **right?**
12 A. Correct.
13 **Q. And what is your experience in terms of your**
14 **ability to have accurate cost estimating at this stage**
15 **of the process for a project like this?**
16 A. A project like this is, you know, it's a site
17 where there's some pretty complex subsurface. A lot of
18 work went into reviewing some preliminary paperwork
19 for the subsurface conditions so we could inform the
20 foundations that were needed, also the type of building
21 that we would need, the size, as well as the equipment
22 needs; so mechanical, utilities, et cetera.
23 There was a lot of work that went into this,
24 but there is always a chance that this can change based
25 on the detailed design as well as we get into the

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1 details of the project by actually digging into the
2 surface.
3 **Q. Is it fair to say that the part of the project**
4 **we can see that's above ground is a little easier to**
5 **project than the part that's going to be below ground?**
6 A. Yes.
7 **Q. And then flipping just through so that we're**
8 **oriented towards this cost estimate document, you've**
9 **also got amounts on the last, it looks like, for**
10 **"Fixed Equipment." Can you tell us what that is?**
11 A. Yeah, that would be the truck scales and
12 support. Mostly just the truck scales, but the support
13 that's needed that's fixed in the ground for the
14 operations to work and to support the stationary
15 equipment, which would be the iMRF equipment that
16 Maurice walked through earlier.
17 **Q. And speaking of that equipment, I'm just**
18 **jumping down. On line 83, it says "C&D." Is that the**
19 **"Construction/Demolition Equipment" component of this?**
20 A. Right. The costs that you see here in these
21 line items were the costs that were given to us by the
22 equipment vendors that we showed earlier as an exhibit
23 and that Maurice walked through.
24 **Q. And did you talk to multiple vendors in order**
25 **to try to get a sense of the range of prices that you**

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1 **might expect for a project like this?**
2 A. We did. We had detailed conversations with
3 two vendors as well as did some site visits.
4 **Q. And how did you arrive -- in terms of putting**
5 **this cost estimate together -- at using this vendor that**
6 **you did? Which vendor did you use?**
7 A. BHS, Bulk Handling Systems.
8 **Q. And how did you arrive at the decision to use**
9 **that vendor?**
10 A. They provide an array of equipment that
11 is very capable of handling the bulky, heavy material
12 that you'll often find in Construction & Demolition
13 debris and type of debris we find in our Public Reuse
14 and Recycling Area.
15 We also were able to visit a local
16 Construction & Demolition processing plant, Zinker Road,
17 BHS, Bulk Handling Systems built as well; so we were
18 able to see it in action and we were able to see the
19 recovery that it was able to do and how it was able to
20 hold up with the type of equipment that it was
21 processing. That gave us the comfort that we would be
22 able to process everything that we would like to through
23 this facility and associated processing equipment.
24 **Q. Was there a stage of the process in which the**
25 **anticipated costs were greater and you decided to narrow**

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1 **the project in order to try to contain costs?**
2 A. Yes.
3 **Q. Describe that for us, please.**
4 A. The original cost estimate that came back
5 seemed too expensive for what we were trying to do;
6 so we went through essentially a value-engineering
7 process to look at where we could cut those costs, and
8 that included looking at every one of these individual
9 sections that we have here and seeing what we could
10 reasonably exclude, but still build a successful
11 project.
12 **Q. Let's turn then to the timing that's**
13 **anticipated for this project. I think we still have**
14 **Exhibit 39, the timeline document, on the screen.**
15 **I want to flip to the next page of it, which is the**
16 **timeline, I think, anticipated for the Contingent**
17 **Schedule No. 1 project. Can you walk us through that?**
18 A. Yes. As Maurice mentioned earlier, we are in
19 conversation with the Port about the lease. But in
20 parallel to that, we actually have also -- using our
21 conceptual design and capital cost estimate, been able
22 to prepare an application for the appropriate
23 environmental review for this process. We are able
24 to -- we actually have submitted the first round of
25 that, and we do anticipate that whole process to take

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1 through this calendar year.
2 At the end of this process or through that
3 process, we will actually also go through detailed
4 design so that we can also go out to bid and select our
5 general contractor on the project so that we can get
6 them involved early because we do have a compressed time
7 schedule here.
8 **Q. So you're saying running the environmental**
9 **review process in parallel with the building permit**
10 **process?**
11 A. No. What I'm saying is running the
12 environmental review process in parallel with the
13 detailed design of the project and the bidding for the
14 construction of that project. We won't be able to
15 submit for our building permits until the environmental
16 review has concluded for the project.
17 So that's the second block that you see here.
18 In the beginning of 2018, we anticipate going in for
19 our building permits; anticipate those to be approved
20 in the summer of 2018, which will allow us then to begin
21 construction. We anticipate somewhere around a 15-month
22 construction and equipment procurement and installation
23 time for this project, which puts us at construction
24 completion in September of 2019.
25 MR. HUGHES: Thank you. Let's turn then next

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1 to the final project that we've talked about, which is
2 Contingent Schedule No. 2, the trash processing facility
3 at Tunnel Beatty. I'd like to mark as Exhibit 41 the
4 cost estimate for that.
5 MR. PRADHAN: Admitted as Exhibit 41.
6 (Exhibit 41, "Tunnel Trash Processing
7 Facility Cost Estimate [Recology],"
8 was admitted into evidence.)
9 BY MR. HUGHES:
10 **Q. Is this the same type of cost estimate**
11 **document that we just talked about as Exhibit 40, but**
12 **this one being for the trash processing facility?**
13 A. Yes. It's formatted the same and is the cost
14 estimate for Contingent Schedule 2, the trash processing
15 facility.
16 **Q. And can you tell us, in terms of the stages of**
17 **planning that you've already talked about, where the**
18 **Company is in terms of planning for this facility?**
19 A. Similar to Contingent Schedule 1, the iMRF,
20 we have gone through a developed conceptual design and
21 associated capital cost estimate for the project.
22 **Q. And what is the cost projected for Contingent**
23 **Schedule No. 2?**
24 A. The anticipated cost from the beginning of the
25 detailed design through the permitting and the

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1 construction of building improvements, because I think
2 as most of us are aware, we would be putting this
3 project in the existing IMRF building which is currently
4 at Tunnel and Beatty; so the construction for this
5 project is really improvements to enable to accommodate
6 the trash processing equipment that Maurice walked
7 through. Through the management of the project as well
8 as the equipment installation, we have a total project
9 cost of \$18,975,804.
10 MR. HUGHES: And I should mention that this
11 document also is part of Tab K to the rate application.
12 BY MR. HUGHES:
13 **Q. The general elements of this document,**
14 **I gather, are similar. You've got an expected design**
15 **cost of \$214,047 dollars; is that right?**
16 A. Correct.
17 **Q. And you've talked about arriving at the**
18 **permitting cost. In this cost estimate, consistent with**
19 **what you just said, the building improvement**
20 **construction is \$500,000 dollars, which is significantly**
21 **less than the iMRF facility and that's because the**
22 **building already exists?**
23 A. Correct.
24 **Q. And then if we turn then to the trash**
25 **processing equipment installation, that number comprises**

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1 **a very large percentage of the total project cost;**
2 **is that right?**
3 A. Correct.
4 **Q. And what is the a amount?**
5 A. \$17,404,626 dollars.
6 **Q. So of the almost \$19 million dollar total cost**
7 **that is anticipated for this project, about \$17,400,000**
8 **dollars of it is the equipment that's going to go in**
9 **that building; right?**
10 A. Correct.
11 **Q. And tell us then, if you could, what has gone**
12 **into the planning for the equipment that would go into**
13 **the trash processing facility.**
14 A. Yes. We again spoke with several different
15 equipment vendors and went through several iterations of
16 not only what this equipment would be, what the
17 individual pieces of equipment, but also how would the
18 material would flow, what is the required throughput,
19 how we would we efficiently load out the commodities as
20 well as the residual that comes from that process.
21 It also was done in conjunction with the same consulting
22 team that I mentioned earlier to ensure that all the
23 stationary equipment could then be accommodated through
24 the building improvements to the existing structure.
25 Through several iterations, lots of different

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1 changes based on what was needed for the project and
2 what the goals of the project were, we came up with the
3 final "Processing Equipment & Installation" number that
4 you see here.
5 **Q. And who was the vendor that you selected for**
6 **this contingent schedule?**
7 A. It was a combination. We selected Van Dyk
8 Recycling Solutions as well as Titus Installation and
9 Maintenance Services. And essentially the way that it's
10 broken up is they worked in partnership together to put
11 together the cost for the equipment purchasing as well
12 as the installation.
13 Van Dyk Recycling Solutions handles the
14 majority of what we call the "smart equipment," so that
15 would be your optical sorters, many of your screens,
16 that Maurice walked us through earlier; whereas Titus
17 Installation Services is really our integrator. They
18 will put in the bunkers, the conveyors that take it from
19 one place to another, to ensure that's it's really a
20 turnkey operation for us once the equipment installation
21 is done. So they work together to put this for the
22 total cost.
23 MR. HUGHES: I'd like to mark as the next
24 exhibit, 42, a document that includes the equipment
25 costs for both the Contingent Schedule No. 1 and

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1 Contingent Schedule No. 2.
2 MR. PRADHAN: Exhibit 42 is a March 7, 2017
3 cover letter with two exhibits, A and B.
4 It will be marked as Exhibit 42.
5 (Exhibit 42, "Contingent Schedules 1 & 2
6 [Recology]," was admitted into evidence.)
7 MR. HUGHES: Thank you.
8 BY MR. HUGHES:
9 **Q. Ms. Butler, can you tell us what Exhibit 42**
10 **is?**
11 A. This is a packet that contains the cost
12 estimate for Contingent Schedule 1, the iMRF, as well as
13 the cost -- the pricing details from BHS, Bulk Handling
14 Systems, which is the equipment vendor that we worked
15 with for the specific equipment to go into the new iMRF
16 facility.
17 That is then followed by the Contingent
18 Schedule 2, trash processing cost estimate. And behind
19 that is the final documents, which are the pricing from
20 Van Dyk Recycling Solutions and Titus Maintenance and
21 Installation Services for the trash processing equipment
22 and installation.
23 **Q. And are those -- the two equipment vendor**
24 **quotes that are contained within Exhibit 42, are those**
25 **two most up-to-date vendor quotes that you've received**

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1 **after the process that you already described?**
2 A. Yes.
3 **Q. Let's talk a little bit just about the**
4 **anticipated schedule and timeline for Contingent**
5 **Schedule No. 2, the trash processing facility at Tunnel**
6 **Beatty. This is third page of Exhibit 39, I think it**
7 **is. We have on the screen the schedule for that.**
8 **Can you walk us through the Company's**
9 **anticipated timeline for this project?**
10 A. Yes. We plan to start in September of 2018
11 with the detailed designed for the equipment as well as
12 the building improvements on this project.
13 **Q. Of course on this project, you can't start**
14 **until you've vacated the space that's already being used**
15 **for the iMRF at Tunnel Beatty; is that right?**
16 A. Yes. The complexities of this project is that
17 there can be no time in which there is an inability to
18 process the Construction & Demolition and the Public
19 Reuse and Recycling Area material. So in order to start
20 the actual demolition of the equipment currently sitting
21 in the iMRF building at Tunnel and Beatty, the new
22 equipment needs be up and running and able to accept
23 material at the new iMRF facility at Pier 96.
24 However, that being the case, we can start the
25 design process before the new iMRF facility is

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1 completed, and that's what we plan to do.
2 **Q. Going back through this for a moment about the**
3 **cost estimate for the trash processing facility, because**
4 **so much of that cost budget is the equipment that's**
5 **going to go into that facility, can you describe your**
6 **confidence in that cost estimate comparing it, for**
7 **example, to the Contingent Schedule 1 iMRF facility?**
8 A. I would say we would be more confident in the
9 cost of the Contingent Schedule 2, the trash processing,
10 because it's majority equipment. There is less
11 complexities there, the equipment vendors know exactly
12 how much each piece of equipment costs, and having
13 Van Dyk work with Titus -- and they've done this before
14 several times in the past -- they know what type of
15 integration is needed for the project to be turnkey.
16 Because there is less construction and
17 building improvements and there's no subsurface work
18 that's done, basically the majority of the work that's
19 needed related to concrete is for the foundations and
20 pedestals for the equipment. We have a higher level of
21 events.
22 **Q. Okay. And then we can see the stages that**
23 **are set forth in Exhibit 39 in terms of the project**
24 **timeline. And then when is the Company anticipating**
25 **it will be done and ready to start operating the trash**

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1 **processing facility at Tunnel Beatty?**
2 A. We're anticipating the full project to be
3 complete by September of 2020.
4 MR. HUGHES: That concludes Recology's
5 presentation on the capital projects.
6 DIRECTOR NURU: Some cross-examination from
7 the City?
8 MS. DAWSON: I have a few.
9 CROSS-EXAMINATION
10 BY MS. DAWSON:
11 **Q. So you've given us a lot of information on a**
12 **variety of these projects, and the West Wing is clearly**
13 **the one that is furthest along. I'm wondering if you**
14 **could speak to the way that the West Wing projects**
15 **changed between conceptual and the design costs that**
16 **you -- or the building cost that you have today, and**
17 **whether you used that to inform the accuracy of your**
18 **current sort of conceptual designs costs for the other**
19 **two projects.**
20 A. Of course. Our experiences in each project
21 will inform what we do in the future, so we have taken
22 everything that we've learned at the West Wing project
23 and applied it to both the contingent schedules.
24 I do want to clarify. If we're referring to
25 the 2013 West Wing project, as Maurice described in our

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1 last hearing, that was a project that was identified
2 for the use of research and development and was a quite
3 a bit smaller building. And because of the change
4 in intention of the use of that building as well as
5 the redesign of that building, that 2013 West Wing
6 contingent schedule wasn't triggered and the fully-
7 -redesigned with the new intended use of the West Wing
8 was proposed as part of this rate application.

9 **Q. All right. But I'm presuming that you did**
10 **conceptual design on the new intended project that now**
11 **is resulting in an \$18.8 million dollar projected cost.**

12 A. Correct.

13 **Q. So are there provisions in the contract to**
14 **ensure that the general contractor meets the schedule?**

15 A. Yes.

16 **Q. Can you please describe that a little more.**

17 A. Yeah. So in our contract there is a schedule
18 that needs to be agreed upon between the Company and the
19 general contractor before we can give them a full notice
20 to proceed on the project. Also included before we can
21 give the full notice to proceed is an agreed-upon
22 guaranteed maximum price and all of the insurances and
23 permits needed for the project. The general contractor
24 is going to be held to that schedule, and there are
25 liquidated damages associated with slipping in that

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1 schedule

2 **Q. Did you include any potentials for incentives**
3 **should the contractor meet or exceed their proposed**
4 **schedule?**

5 A. In certain aspects of the project, there are
6 incentives that are provided for the general contractor
7 to incentivize them to work faster.

8 **Q. And where would that be reflected? Are there**
9 **some sort of shared contingencies at project completion**
10 **or something like that? That's pretty common in**
11 **construction.**

12 A. The way that we've incentivized them is
13 through timetables; so essentially if they miss the
14 timetable, there's liquidated damages associated with
15 the general contractor. If they meet the timetable,
16 there's incentive payments.

17 **Q. What about escalation risk? We're kind of in**
18 **an unprecedented building boom in San Francisco right**
19 **now. What kind of considerations have you made for**
20 **escalation potential for affecting your final price?**

21 A. Great question. Yeah, as we are aware,
22 escalation is something that we need to consider as part
23 of the process. And what we've done particularly in the
24 West Wing project and the contingent schedule projects
25 is taken that risk and put it into the contingency

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1 percentages that we've allotted to the different
2 projects.

3 **Q. So what if things go wrong and your projected**
4 **cost that you've included in this application is not**
5 **reflected with the total cost of the project?**
6 **What then?**

7 A. That's a good question. I'm not sure I'm the
8 best person to ask about the mechanics of what we would
9 do at that point, so I'd have to defer to somebody else.
10 Probably John Porter.

11 **Q. Who will be up here later, I presume.**
12 **So you've already provided a lot of the**
13 **equipment. I know that there's a lot of experimentation**
14 **going on in the trash processing. How comfortable do**
15 **you feel with this conceptual design estimate given some**
16 **of the uncertainties on the actual equipment you may end**
17 **up using? Because as you've noted, equipment is a huge**
18 **percentage of the projected cost.**

19 A. It is a risk of the project. But where we sit
20 today, we feel fairly comfortable given that this type
21 of equipment is used very readily throughout the rest of
22 the world, and we have worked with equipment vendors
23 that have installed and seen what that equipment can do.
24 But of course, the trash processing pilot will further
25 inform what we want to do as part of the full-scale

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1 trash processing project.

2 **Q. 92% of the total project cost, it's a pretty**
3 **significant risk.**

4 A. It's a significant part of the project. But
5 again, to reiterate what I said in talking with John is
6 we are very comfortable and even have a higher degree of
7 confidence in those prices for the equipment compared to
8 the really large construction project which is included
9 in the other contingent schedule.

10 MS. DAWSON: Okay. So I think this is more
11 of a global cost, and I'm not sure it's appropriate for
12 Ms. Butler, Mr. Quillen or maybe even Mr. Arsenault,
13 but you proposed an awful lot of capital investments.
14 And I'm interested in Recology walking us through the
15 numbers on where we are today and how we will improve
16 our diversion, along each step of the way for these
17 investments to the point where once you're actually
18 processing all the trash, kind of where we would end
19 up in terms of diversion once those investments are
20 complete.

21 MR. QUILLEN: I think we might want to provide
22 a schedule at a later hearing. I know I briefly
23 discussed the high-level production and tonnages as a
24 result of these operations, and the trash processing
25 pilot would be one truck reduction to the landfill.

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1 The iMRF, I think, would probably eliminate seven or
2 more trucks to the landfill. And the zero waste
3 processing pilot, assuming that we take a 25% diversion
4 rate and apply it to our existing tonnage, another seven
5 or so trucks to the landfill.
6 But once again, these are just very high-level
7 assessments based on a simplistic throughput calculation
8 at 25 tons per load.
9 BY MR. HUGHES:
10 **Q. So the City would ask Recology to put together**
11 **some kind of more global assessment. It's asking for a**
12 **lot of capital investment, and I think the City really**
13 **needs to have a far coherent understanding of how this**
14 **investment will actually attribute towards its zero**
15 **waste goal.**
16 **I also think that we're interested in**
17 **understanding whether when we get to that point,**
18 **does Recology think that there are going to be further**
19 **capital investments that would eventually be needed to**
20 **achieve this goal. So if we get this information and**
21 **we see you're only at a certain point we still need to**
22 **go further, exactly how does Recology envision we're**
23 **going to work towards that diversion and zero waste**
24 **goal?**
25 **I do have one more kind of interesting**

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1 **question that came up as a result of Mr. Quillen's**
2 **testimony. You had mentioned that the air quality**
3 **system improvements would actually extend to the entire**
4 **transfer station. Did we understand you correctly?**
5 MR. QUILLEN: Yes.
6 MS. DAWSON: And is that cost included in the
7 West Wing construction schedule? And if so, can you
8 make that clear?
9 MR. QUILLEN: The odor control system that we
10 are proposing for the West Wing will in fact treat the
11 transfer station and the West Wing as one building. And
12 the air from both facilities will be extracted through a
13 series of four ion generators located in different parts
14 of the facility.
15 So to answer your question, yes, the transfer
16 station -- the odor from the transfer station will be
17 treated in addition to the West Wing.
18 THE WITNESS: And I can point you to where
19 that is. The odor control system is actually split
20 between a couple of lines. Towards the bottom of the
21 West Wing cost estimate, you'll see "HVAC" and
22 "Electrical." Those are both components of the proposed
23 odor system; so the total cost is included in there.
24 MS. DAWSON: Thank you. I think that's our
25 questions for now.

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1 Would the Ratepayer Advocate have any
2 questions for Recology related to capital investment?
3 MS. DILGER: Good morning.
4 Just have a couple of questions.
5 MS. DAWSON: Can you state your name for the
6 record.
7 MS. DILGER: Rosie Dilger.
8 EXAMINATION
9 BY MS. DILGER:
10 **Q. So we've heard that the West Wing project is**
11 **fully entitled, will not face delay, and is past the**
12 **point of appeal. And what was the level of CEQA**
13 **environmental review? Was it a full EIR?**
14 A. It was a mitigated negative declaration.
15 **Q. Can you speak to the justification for**
16 **mitigated negdec?**
17 A. That environmental review went on for the
18 project before I was involved, so I can happily get back
19 to you with the justification of that.
20 **Q. Okay. And what level of environmental review**
21 **are you in with the iMRF?**
22 A. We have only just submitted the application;
23 so we haven't had those conversations yet.
24 MS. DILGER: Do you anticipate the level yet
25 or are you still waiting?

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1 MR. QUILLEN: We anticipate at this point that
2 the level of environmental for the iMRF would be limited
3 to a mitigated negative declaration as well.
4 MS. DILGER: Thank you. With the moving of
5 the iMRF and upgrading of the facility on Tunnel, during
6 and after construction, will the public still be able to
7 bring their recyclables?
8 MR. QUILLEN: The public will still be allowed
9 to bring its recyclables. We operate buyback centers at
10 Pier 96 and also at Tunnel Beatty. The buyback center
11 at Tunnel Beatty will continue to be in operation.
12 At Pier 96, we operate a buyback operation
13 that comprises of a fiber purchase system where we buy
14 cardboard and newspaper and things of that nature from
15 the public, and cans and bottles. We do not buy many
16 cans and bottles from the public at the Pier 96
17 facility. The location where we currently operate the
18 buyback is where we will be installing the equipment for
19 the zero waste pilot; so we will be shutting down the
20 buyback -- cans and bottles and glass at the Pier 96
21 facility. The head count associated with that project
22 will be utilized to operate the zero waste pilot.
23 MS. DILGER: Will there be other locations
24 where people can bring their recyclables for redemptions
25 or buyback? Or just Tunnel Beatty,

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1 MR. QUILLEN: We will still maintain the
2 buyback center at Tunnel Beatty.
3 MS. DILGER: Thank you.
4 The rate application summary placed a good
5 amount of impact on Construction & Demolition debris due
6 to increased development throughout the City in the last
7 few years. We've seen no sign of this slowing down.
8 How much of this infrastructure cost is being placed on
9 the residential ratepayer?
10 MR. QUILLEN: The expenses associated with
11 the process of the project are a tipping fee increase.
12 Essentially, that tipping fee increase would be applied
13 to all customers in the same fashion. It's important
14 to understand that with the Public Reuse and Recycling
15 Area, it generates anywhere between 250 to 300 tons per
16 day. That material is mostly residential in nature
17 would be going across the new iMRF building; so it's
18 important to understand that the iMRF will serve
19 Construction & Demolition customers as well as the
20 residential ratepayers.
21 MS. DILGER: Are there any specific fees for
22 commercial or developers related to the Construction &
23 Demolition debris?
24 MR. QUILLEN: We charge a universal tipping
25 for all material. We do not differentiate between

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1 residential or commercial customers in our tipping fees.
2 MS. DILGER: All right, thank you.
3 That's all I have for now.
4 DIRECTOR NURU: Thank you. Could we call up
5 John Porter.
6 (Ms. Butler and Mr. Quillen step down from the
7 witness stand.)
8 DIRECTOR NURU: Prepare to swear him in,
9 please.
10 JOHN PORTER,
11 having first been duly sworn,
12 was examined and testified as follows:
13 DIRECT EXAMINATION
14 BY MR. BAKER:
15 **Q. Good morning, Mr. Porter.**
16 A. Good morning.
17 **Q. Can you will state your full name for the**
18 **record, please.**
19 A. John Porter.
20 **Q. What is your job?**
21 A. I am the Group Controller for the
22 San Francisco region at Recology.
23 **Q. And what companies are you responsible for in**
24 **that position?**
25 A. Recology Sunset Scavenger, Golden Gate, and

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1 Recology San Francisco, as well as CleanScape
2 San Francisco.
3 **Q. As well as what?**
4 A. CleanScape San Francisco.
5 **Q. Lean a little closer to the microphone so we**
6 **can make sure we can hear you.**
7 **How long have you worked for Recology?**
8 A. Nearly four years in June.
9 **Q. And most of the matters that you're here to**
10 **testify about are covered in quite a bit of detail in**
11 **the application.**
12 A. Correct.
13 **Q. So I don't intend to go over those with you,**
14 **but you'll of course be available in a few minutes for**
15 **cross-examination on all those. But what I would like**
16 **to do is ask you about three issues of particular**
17 **interest, and also because they represent some material**
18 **that may not be fully explained in the application.**
19 A. Okay.
20 **Q. So I want to talk about the rate structure,**
21 **COLA, and the accounting treatment for capital assets.**
22 A. Okay.
23 **Q. The accounting treatment for capital assets**
24 **will be the rest period for people when they can take a**
25 **quick nap and stuff. But let's talk about the rate**

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1 **structure first.**
2 MR. BAKER: If you could put the overhead on
3 please.
4 (Exhibit 2 is displayed.)
5 BY MR. BAKER:
6 **Q. This is a page out of Exhibit 2 which**
7 **Mr. Arsenault has already testified about.**
8 **But just to remind people, this shows the**
9 **proposed rate increases as it would apply to a single**
10 **family home; is that right?**
11 A. Correct.
12 **Q. Okay. So let's start with the fixed charge,**
13 **which is identified here as the "Unit Charge."**
14 A. Yes.
15 **Q. And that is proposed to go up; correct?**
16 A. Yes.
17 **Q. From what to what?**
18 A. Right now, I believe \$5.16.
19 And it's going to go up to \$20 dollars.
20 **Q. Has Recology's rate for residential ratepayers**
21 **always included a fixed unit charge?**
22 A. No. This was incorporated as part of the
23 2013 rate application for residential customers.
24 **Q. And 2013 was the first time?**
25 A. Yes.

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1 **Q. And what's the thinking behind having a fixed**
2 **unit charge?**
3 A. There was an exhibit introduced as part of
4 the 2013 application prepared by Armanino McKenna, our
5 accountancy firm, that showed that approximately 60% of
6 our costs were fixed in nature. And so in terms of
7 providing the services that we do in San Francisco, 60%
8 of our costs were unavoidable. They're incurred whether
9 or not you utilize the services every week, day in and
10 day out. Those include maintaining the facility,
11 capitalization of a fleet, maintaining capacity in the
12 truck, labor, et cetera.
13 **Q. You said 60%?**
14 A. Correct.
15 **Q. So in 2013, with the institution of a fixed**
16 **unit charge, did that represent the actual percentage of**
17 **costs which were fixed versus variable in 2013?**
18 A. It did not. I believe the approach was to
19 step in and introduce that concept as part of 2013 in
20 hopes of getting to a cost structure that -- and a
21 revenue structure that approximated our cost structure
22 by increasing that fixed component.
23 **Q. If it's raised to \$20 dollars, does that then**
24 **represent an actual -- the actual proportion of**
25 **Recology's costs which are fixed versus variable?**

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1 A. It does not. As you can see, for the most
2 common customer which is our currently a 32/32/32
3 customer, it represents about 50% of the revenue,
4 which is less than the 60% of our costs.
5 MR. BAKER: So I'd now like to offer
6 Exhibit 43 a six-page document including the cover
7 entitled "San Francisco Rate Application, Fixed vs.
8 Variable Cost Analysis."
9 MR. PRADHAN: Admitted.
10 (Exhibit 43, "Fixed vs. Variable Cost Analysis
11 [Recology]," was admitted into evidence.)
12 BY MR. BAKER:
13 **Q. Mr. Porter, can you tell us what this document**
14 **is?**
15 A. This document was prepared by an accounting
16 firm and it shows the different cost structures, the
17 different types of costs that are associated with our
18 collection company, Recology Sunset Scavenger and
19 Recology Golden Gate. I believe that is on what is the
20 second-to-last page.
21 And it shows which costs are considered fixed
22 versus what costs are considered variable as it relates
23 to the costs that were incurred in 2016.
24 **Q. And what percentage are fixed and what**
25 **percentage are variable?**

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1 A. Approximately 62% are fixed, 61.96%.
2 **Q. Now, the firm that prepared this particular**
3 **analysis is an accounting firm?**
4 A. Correct.
5 **Q. And who in particular at the accounting firm**
6 **was responsible for preparing this this?**
7 A. I worked with Bill Brause, a partner at that
8 firm.
9 **Q. That's B-R-A-U-S-E?**
10 A. Correct.
11 **Q. Was this prepared at your request?**
12 A. Yes.
13 MR. BAKER: Mr. Brause's available to appear
14 for cross-examination if the Director and the City would
15 like. He's not here today, but if you tell us, we'll
16 have him here next week. He will -- he not only has
17 prepared this fixed versus variable cost analysis, but
18 he's also prepared a COLA analysis which we're going to
19 introduce in a few minutes.
20 DIRECTOR NURU: We'll be sure to let you know.
21 MR. BAKER: Thank you.
22 BY MR. BAKER:
23 **Q. Going back to the portion of Exhibit 2, the**
24 **chart showing the rate changes, what if you have a**
25 **two-unit building, a duplex? What's going to be the**

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1 **per-unit charge there?**
2 A. For a two-unit building, it would be
3 \$20 dollars per unit, or \$40 dollars.
4 **Q. Okay. Now what if the residents of those two**
5 **units share a bin or share bins? They have one black**
6 **bin of some size, one blue bin of some size, one green**
7 **bin of some size. Will each unit be charged a**
8 **\$20 dollar fixed unit charge?**
9 A. Correct.
10 **Q. Okay. Now, what's the thinking behind that?**
11 A. Well, typically a two-unit building would also
12 larger volumetric services. So if the average single-
13 -family home has a 32/32/32 service configuration, a
14 multi-unit building would have potentially a 64/64/64
15 service configuration. And so it's worth noting that
16 the volumetric charges are actually being reduced as a
17 part of this new rate structure from \$25.90 for trash
18 service for 32 gallons to \$10.44.
19 So to look at one cost in isolation, I don't
20 know that that is appropriate given the structural
21 changes that we've introduced as of this rate
22 application. So those customers will see, yes,
23 a significant increase in their unit charge, but they
24 will also a decrease in their volumetric charges.
25 **Q. So somebody might say, well, if you have a**

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1 **duplex and the truck stops in front of the duplex and**
2 **there are three cans there, it's the same effort.**
3 **You've got to pick up the same number of cans. If it's**
4 **a single-family home, is it really right to charge each**
5 **of those units \$20 dollars? And what answer do you give**
6 **to those folks?**
7 A. Well, I would say again the same percentage of
8 costs under this hypothetical situation that we've
9 presented of a two-unit building with 64/64/64, the same
10 portion of their costs are going to be fixed. So just
11 as our costs are 62% fixed no matter what the service is
12 that we provide, that same corresponding revenue
13 percentage would also be 50% in that hypothetical
14 situation.
15 **Q. So you're processing charges, for example, for**
16 **a two-unit building are going to be higher than the**
17 **processing charges for a single-family building?**
18 A. Correct.
19 **Q. Because the duplex will generate more**
20 **material; is that true?**
21 A. Correct.
22 **Q. And those are part of the fixed costs that you**
23 **have -- that this analysis Mr. Brause has prepared**
24 **shows?**
25 A. Correct.

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1 **Q. What can the typical single-family customer,**
2 **as reflected in the chart we have on the board, what can**
3 **they do to mitigate the cost, the rate increase?**
4 A. As always, I think the preferred approach
5 would be to reduce less and also right-size your
6 service. Right now, not a lot of people look at the
7 \$2.06 recycling and composting charges as relatively
8 small. Those are increasing to \$5.22. If you're in a
9 situation were you're a 32/32/32 customer and you
10 received a 16 gallon bin, you can elect not to get a
11 64 gallon bin, and that would result in a very
12 insignificant rate increase for that customer.
13 So if they're paying \$35 dollars right now,
14 they would pay approximately \$36 dollars if they were to
15 be a 16/32/32 customer.
16 **Q. So faithful recyclers are rewarded?**
17 A. Correct.
18 **Q. Now what about low-income residents? Can they**
19 **get any relief for the proposed rate increase?**
20 A. We have always offered a low-income 25%
21 discount for our customers.
22 **Q. And that's proposed to be continued?**
23 A. That's proposed to be continued, yes.
24 **Q. Approximately how many customers qualify for**
25 **that now?**

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1 A. You'll have to give me a minute. It's in the
2 application. For those that are following along, it
3 will be in schedule B.3.
4 Is it 7,000? Can I call a friend?
5 MS. DAWSON: No lifelines.
6 THE WITNESS: No lifelines? This is tough.
7 I'm going to have to get back to you.
8 I believe it is approximately 7,000 customers.
9 BY MR. BAKER:
10 **Q. In any event, it's in one of the schedules of**
11 **the application?**
12 A. Yes, correct.
13 **Q. I had one other question about this.**
14 **Now, if we go down again, we're looking at**
15 **this chart from Exhibit 2 --**
16 A. And it is 7,041.
17 **Q. 7,041 customers currently qualify for**
18 **low-income rate mitigation?**
19 A. Yes.
20 **Q. So we go back to the chart, which is part of**
21 **Exhibit 2 --**
22 MS. DAWSON: Mr. Baker, for the the record,
23 what's the amount considered low-income.
24 THE WITNESS: I don't have that in front of
25 me. It is a low number, but I can get that information.

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1 It varies by number of people in the family; so it's
2 scaled. And it is a standardized template that we use
3 that's consistent with other utilities.
4 MR. BAKER: We'll provide that for you,
5 though, Ms. Dawson.
6 MR. PRADHAN: Could you identify the schedule
7 you were looking at, please.
8 THE WITNESS: B.3.
9 MR. PRADHAN: B.3? Thank you.
10 THE WITNESS: On the collection company
11 application.
12 BY MR. BAKER:
13 **Q. Now again, if we look at this chart which is**
14 **part of Exhibit 2, the volumetric charge that is**
15 **proposed for the black bin versus the blue or green bin**
16 **is different; is that right?**
17 A. Yes, correct.
18 **Q. Can you explain that?**
19 A. Currently under the proposed structure, the
20 black bin is twice as expensive on a per-gallon basis as
21 the blue and the green one.
22 **Q. Is it in fact more expensive to process black**
23 **bin material than it is to process blue or green bin**
24 **material?**
25 A. Well, currently we're not processing a

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1 significant amount of black cart material; so the vast
2 majority is being landfilled.
3 To answer your question directly, it is not
4 more expensive to landfill material than it is to
5 process it for recycling or composting.
6 **Q. So it's more expensive to process the blue bin**
7 **material than to send the black bin material to the**
8 **landfill?**
9 A. Correct.
10 **Q. And it's more expensive to process the green**
11 **bin material than to send the black bin material to the**
12 **landfill; correct?**
13 A. Correct.
14 **Q. So again, what's the thinking behind having**
15 **the volumetric charge for the black bin higher?**
16 A. Again, we are -- as part of the 2013
17 application, we created this new structure which added a
18 charge of \$2 dollars to the blue and green, and the goal
19 was to slowly and incrementally adjust those costs to
20 reflect the actual cost of service. And so that is a
21 step in that direction.
22 Also, you know, looking forward as Meghan and
23 Maurice had discussed earlier, we are going to be
24 processing black cart material, at which point the cost
25 of processing black cart material may approximate the

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1 current structure that we're proposing; so a little
2 foresight is put into this as well.
3 **Q. But also the difference between the per-ton**
4 **cost illustrates your point earlier that a customer can**
5 **mitigate the impact of the rate increase by reducing**
6 **black bin usage in favor of the blue or green for,**
7 **among other reasons, the price differential.**
8 A. Correct.
9 MR. BAKER: Let's move on now to apartment
10 rates.
11 (Exhibit 44, "Apartment Rate Examples 1
12 [Recology]," was admitted into evidence.)
13 (Exhibit 44 is displayed.)
14 BY MR. BAKER:
15 **Q. So Exhibit 44 is a chart.**
16 **This is a chart you've prepared?**
17 A. Correct.
18 **Q. And what does this chart tell us?**
19 A. Well, this chart represents the most common
20 apartment service configuration. And so we've selected
21 the two most common service configurations, and it shows
22 the number of units -- so it might be worth clarifying
23 that "apartment" customers are buildings with 6 or more
24 units up to 600 rooms, and so residential are considered
25 1 to 5 units. So this is for customers with 6 units,

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1 192 gallons of trash, 192 gallons of recycling, and
2 32 gallons of composting, and with the diversion rate of
3 54%.
4 Under the current rate structure, they have a
5 \$5.16 unit charge, a \$25.90 trash, recycling and
6 composting charge per 32 gallons, and a "Diversion
7 Discount" of 44%. And so maybe I'll stop to explain the
8 difference between that diversion rate and the Diversion
9 Discount.
10 Under the current rate structure, we have what
11 we'll call a "floor" and a "ceiling." Customers'
12 diversion rate is reduced by the floor, which is
13 currently 25%. So in this situation, the diversion rate
14 is 54%; their Diversion Discount is therefore 44%.
15 We also have a ceiling, where you are not
16 enabled to receive a discount in excess of 75%. So if
17 your diversion rate is 90%, let's say, your floor
18 reduces that to 80%. You'd be capped out at 75%, so
19 you'd lose 5% of your diversion in that hypothetical
20 situation.
21 **Q. Let me just interrupt you for just a second.**
22 A. Sure.
23 **Q. How is the 54% percentage calculated?**
24 A. Sure. That is the percentage of recycling and
25 composting service over the total service. So 32 plus

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1 92 -- 32 gallons of composting plus 192 gallons of
2 recycling over the total volumetric service.
3 **Q. 32 plus 192 plus 192?**
4 A. Correct.
5 **Q. All right. And so under "Current Rates," this**
6 **particular customer with six units gets a Diversion**
7 **Discount of \$148.15?**
8 A. Yes.
9 **Q. Yielding a monthly charge of \$219.51?**
10 A. Correct.
11 **Q. So how will that change under the proposed**
12 **rates?**
13 A. Again, similar to the residential rate
14 structure. We are actually reducing the unit charge
15 \$0.16 cents. We're reducing the volumetric charges per
16 gallon from \$25.90 to \$24.50. But we are increasing our
17 expectations for our customers, so we're kind of raising
18 the bar in the sense that we're raising that Diversion
19 Discount floor that I mentioned from 10% to 25%.
20 So you are going to get more of an incentive
21 to increase your recycling percentage, and then at the
22 same time we are increasing the ceiling so you're no
23 longer capped out at that 75% I mentioned earlier. You
24 now receive a discount for up to 100% of your efforts.
25 **Q. So the Diversion Discount that's proposed on**

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1 **this chart is 29%; correct?**
2 A. Right.
3 **Q. And 29% is --**
4 A. 54% minus the 25% floor that I mentioned
5 earlier.
6 **Q. And how is the 25% number selected for the**
7 **floor?**
8 A. You know, I would say it's part of the
9 structure. That part is kind of the other element of
10 the fixed cost. That recovery that we got, we discussed
11 earlier, is part of the residential structure. And so
12 that element is trying to, again, reflect an increase,
13 getting us closer our revenue reflecting our cost of
14 service.
15 **Q. Does it relate at all to the Mandatory**
16 **Recycling Ordinance?**
17 A. Yes, in the sense that right now you're kind
18 of getting credit for doing what's required. Right
19 now, you're required to have composting and recycling
20 service, so you're getting a discount for doing what is
21 largely the bare minimum. You're doing what you're
22 legally required to do. Now we're asking you to do a
23 little more than what is required, and so it's
24 incentivizing those to recycle and compost more.
25 **Q. And when we looked at the residential proposed**

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1 **rates, the fixed unit charge was increasing from \$5.16**
2 **to \$20 dollars.**
3 A. Mm-hmm.
4 **Q. Here on the apartment rates, the unit charge**
5 **is actually going down a slight amount. So what's the**
6 **thinking behind that?**
7 A. So the apartment rates have two kind of fixed
8 recovery elements -- one in that diversion floor that
9 we're talking about. So 25% of our costs are recovered
10 through that floor, and then the additional difference
11 is covered in that unit charge. So it's trying to move
12 the economics of the rates in lock step; so increasing
13 that fixed component for both.
14 **Q. How will this proposed structure relate**
15 **to what Recology currently uses for its commercial**
16 **customers?**
17 A. We're proposing a consistent structure for
18 commercial.
19 **Q. Consistent structure for what?**
20 A. Commercial. So the structures will be
21 consistent for the rates. The volumetric charges will
22 differ, but the floor and ceilings will be consistent.
23 **Q. Consistent? Okay. I'm losing you at the**
24 **beginning of your sentence.**
25 A. I've never been accused of being too quiet.

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1 This is very unfamiliar territory.
2 **Q. And so currently, the apartment rate structure**
3 **is somewhat different than the commercial?**
4 A. Yes.
5 **Q. And this would bring it in line with the**
6 **commercial?**
7 A. Yes.
8 MR. BAKER: So this is Exhibit what now?
9 MR. PRADHAN: 45.
10 (Exhibit 45, "Apartment Rate Examples 2
11 [Recology]," was admitted into evidence.)
12 (Exhibit 45 is displayed.)
13 BY MR. PRADHAN:
14 **Q. Now you mentioned, Mr. Porter, that you have**
15 **prepared two illustrations of the apartment rate**
16 **structure. So I think we can more quickly go through**
17 **this one. But is this the second one?**
18 A. Yes.
19 And before we move on from the first, it is
20 worth mentioning that this customer does have trash
21 service in excess of the required minimums. And so if
22 there is recyclables or compostables in that waste
23 stream, it would be in this customer's best interest to
24 change their service to reflect what they actually
25 require. So the increase in recycling and composting

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1 would result in them receiving a lower increase or
2 potentially offsetting the entire increase that we're
3 proposing under the structure.
4 **Q. And that's the -- now you're talking about the**
5 **illustration that we were previously discussing,**
6 **Exhibit 44?**
7 A. Correct.
8 **Q. Very good. Now moving to Exhibit 45, what's**
9 **different about this customer?**
10 A. This customer has a slightly higher diversion
11 rate. This is the second most common service
12 configuration for our apartment customer. And so they
13 have a slightly different service configuration. They
14 have 96 gallons, or half as much trash and recycling as
15 the previous example.
16 **Q. And again, this customer could also mitigate**
17 **the rate increase by recycling, composting more --**
18 A. I actually believe this customers is at the
19 service minimums for that service level, so the
20 opportunity is not there. But it is worth noting that
21 they are not receiving as large of an increase. So the
22 previous customer was going to receive a 16.7%. This
23 customer will receive a 15.4%. So they're already doing
24 a fairly good job at what I previously mentioned.
25 **Q. Simply by reducing their volume of each of the**

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1 **three materials?**
2 A. Yes. And it is also worth mentioning that
3 these are -- I can't speak about every six-unit building
4 in San Francisco, but in these two examples, it's two
5 six-unit buildings with drastically different rates.
6 And so the first example has a \$256 dollar rate per
7 month and the other example has a \$146 dollar rate per
8 month -- a \$100 dollar difference for both being
9 six-unit buildings. So this kind of illustrates what
10 many customers, in an example, will have an opportunity.
11 This 1 is the most common customer. All these customers
12 have an opportunity to potentially reduce their
13 volumetric service and, again, mitigate a rate increase.
14 **Q. All right. I'd now like to move on to the**
15 **second area that I wanted to ask you about, and that is**
16 **COLA. Is Recology proposing any major changes to the**
17 **COLA calculation?**
18 A. I wouldn't classify it as major, no. But we
19 are proposing a change, yes.
20 **Q. And what is the change?**
21 A. The inclusion of pension costs as a component
22 of the fixed payroll costs.
23 **Q. And why are you proposing that change?**
24 A. Well, the proposal was part of the previous
25 2013 application. From my perspective, it simplifies

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1 the COLA. During the last application, they used a
2 fixed increase for each COLA year that was based on a
3 projection for one single year. So for example, the
4 collection companies got a 0.31% increase on that
5 pension component of their costs, and that was based on
6 our projections for one year and the rate actually
7 lasted longer than that term.
8 So from my perspective, involving an
9 actuarial -- each time we do the COLA calculation,
10 it might not be in anyone's best interest. And so this
11 would just simplify the calculation and then also not
12 have a dramatic impact on the COLAs, but also --
13 but would more accurately reflect the cost increases
14 that we are seeing.
15 **Q. Let's quickly run through some documents to**
16 **explain what you just described.**
17 A. Sure.
18 **Q. So the first thing I'd like to show you is**
19 **a page from the 2013 Director's Report, which we will**
20 **offer and mark later. But it's page 12 from the**
21 **Director's Report.**
22 A. Yes.
23 **Q. And this particular section, as you can see,**
24 **is headed "Cost of Living Adjustment Mechanism." And**
25 **then there's a chart in the Director's Report. Can you**

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1 **explain what that chart's all about?**
2 A. The one you're showing?
3 **Q. Yes.**
4 A. This just shows from an analysis that was also
5 performed by Armanino McKenna in 2013, the weighting of
6 the costs that we incur. So it shows that 7.23% of our
7 costs at that time were related to pension expense,
8 whereas 42.34% were related to fixed labor costs,
9 payroll.
10 **Q. So in this particular Director's Report and in**
11 **a prior Director's Report, COLA adjustments were allowed**
12 **year-to-year based upon a formula that is set forth by**
13 **the Director; is that right?**
14 A. Yes, correct.
15 **Q. And this is that formula?**
16 A. Well, this isn't the formula.
17 This is the weighting that that formula uses.
18 **Q. So in this particular presentation, "Fixed**
19 **Labor" represents 42.34% of the weighting in calculating**
20 **what the COLA adjustments should be each year; is that**
21 **right?**
22 A. Yes.
23 **Q. And how is the variation in fixed labor cost**
24 **determined?**
25 A. It uses the collective bargaining agreement

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1 increases that are proscribed, and those are based on
2 various CPI.
3 **Q. Based on CPI?**
4 A. Yes.
5 **Q. Which means?**
6 A. "Consumer Price Index."
7 **Q. Okay. And then some of these other factors**
8 **here, like "Variable Labor" and "Biodiesel Fuel" and**
9 **"CNG Fuel," they are based upon publically-available**
10 **indices that are published from time to time?**
11 A. Correct.
12 **Q. In 2013, were any new categories added to the**
13 **COLA calculation? I'll help you: Pension?**
14 A. Well, pension was taken out. We proposed that
15 pension -- oh, sorry, pension was added. Excuse me.
16 We proposed that it be included as fixed labor and it
17 was broken out; correct.
18 **Q. So pension in 2013 for the first time was**
19 **included as its own separate category?**
20 A. Yes.
21 **Q. And I believe their variable health and**
22 **welfare was included as a new separate category as well;**
23 **is that true?**
24 A. Yes.
25 **Q. Now, in terms of deciding what adjustment**

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1 would be made in the the pension component, what did the
2 Director decide?
3 A. To use a Towers Watson report that was created
4 as part of the last rate application process.
5 **Q. And was that particular percentage amount that**
6 **was to be used, was that -- it's not described in the**
7 **Director's Report, but was it described in the staff**
8 **report?**
9 A. Yes, it was.
10 **Q. And the Director's report just adopted the**
11 **Staff's report recommendation on that particular score?**
12 A. Yes.
13 **Q. All right. So let me now show you a page out**
14 **of the 2013 staff report.**
15 A. Mm-hmm.
16 **Q. And this is page 16 of the staff report.**
17 **And again, we'll provide that as an exhibit later.**
18 **But page 16 of the staff report provides a**
19 **detailed recommendation as to how each of the components**
20 **should be calculated on a year-to-year basis; is that**
21 **right?**
22 A. Yes.
23 **Q. So let's focus on the one we were just talking**
24 **about, pension.**
25 **Q. Mm-hmm.**

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1 **Q. And what was the recommendation on pension**
2 **that was ultimately adopted by the Director's Report?**
3 A. As it says there, we set the pension expense
4 to projected increases, annual average of 0.31% for
5 Sunset and Golden Gate and 1.25 for RSF.
6 **Q. And did that work for the first year following**
7 **the rate? In other words, the rate in 2013 established**
8 **what the rate would be from July 1, 2013, to June 30,**
9 **2014; correct?**
10 A. Correct.
11 **Q. And then beginning July 1, 2014, a COLA**
12 **adjustment was made?**
13 A. Yes.
14 **Q. And did those particular numbers fairly**
15 **reflect Recology's actual costs for those items in the**
16 **years following the initial year?**
17 A. Well, it's all -- I'd rather probably speak in
18 terms of the term of the rate. So over the term of the
19 rate, you know, we're not talking about significant
20 variances, but the total increase of it is about 1% per
21 year. And for the collection companies, which make up
22 the lion's share of the pension contributions due to the
23 employees participating in that plan, it hasn't
24 reflected the 0.31% increase that was allocated to that
25 amount.

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1 **Q. So your actual costs have been higher?**
2 A. Yes. Again, not significant increases, but
3 slightly higher, yes.
4 **Q. And what are the components of the pension?**
5 A. Meaning in terms of how we determine our costs
6 for the rate?
7 **Q. Yes.**
8 A. For the rate, it's based on contributions.
9 **Q. And does it also include a retirement account**
10 **for retirees?**
11 A. There are other costs, yes. There's a
12 retirement security plan that Local 350 participates,
13 in, yes.
14 **Q. And how much has that gone up over the last**
15 **three or four years?**
16 A. Over the last three years, it's gone up 8.2%
17 on average.
18 **Q. Is that reflected in the application?**
19 A. That is, yes.
20 **Q. What schedule?**
21 A. I believe it's G.2 or G.3.
22 **Q. Yeah, I think it's G.3.**
23 A. G.3.
24 **Q. Now, why would your proposal, which I**
25 **understand to be to take the pension component and just**

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1 **wrap it into the fixed labor cost, why would that be an**
2 **improvement?**
3 A. Well again, as I mentioned, one, it will
4 simplify the process. Two, it won't require the
5 involvement of actuaries in order to estimate. Three,
6 it's also worth noting that when we negotiate these
7 contracts, we negotiate benefits as a package versus
8 kind of line-item-by-line-item. And so we've negotiated
9 this particular element as a package with their
10 compensation in the form of payroll; so including that
11 as an item altogether, I believe, makes sense.
12 **Q. And again, I'm showing you page 17 from the**
13 **Director's Report, which Ms. Pearce reminds me is**
14 **already in evidence as Exhibit 15.**
15 **If the pension and the fixed labor components**
16 **of the COLA were combined, what would that have been**
17 **in 2013 in terms of what would have been the weight**
18 **accorded to fixed labor?**
19 A. Approximately 50%.
20 **Q. So 41.91% plus 7.15%?**
21 A. Correct.
22 **Q. Have you taken a look at how the COLA would**
23 **have been different in the past three, four years if**
24 **pension had been wrapped into fixed labor?**
25 A. Yes.

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1 THE WITNESS: Looks like the percentages were
2 cut off in the margin, unfortunately.
3 MR. BAKER: A-ha, so we're going have to --
4 I think it's on the computer. Could you --
5 MR. PRADHAN: This will be Exhibit 46.
6 (Exhibit 46, "Historical COLA Trend
7 [Recology]," was admitted into evidence.)
8 (Exhibit 46 was displayed.)
9 BY MR. BAKER:
10 **Q. Kind of hard to read, but what do the**
11 **different colors represent?**
12 A. So the top line in blue is the Bay Area CPI,
13 and the red line is the COLA if were to include pension
14 as a part of payroll, and then the gray line their
15 actual COLA over the last three years. And this was
16 created just to illustrate it does not result in a
17 significant change, and the Bay Area CPI was included as
18 kind of a proxy for showing what our cost structure, how
19 it may have changed overall. So as you can see, our
20 COLA percentages are still trending far below that
21 index, and this one incremental change doesn't result in
22 a drastically different result.
23 MR. PRADHAN: Excuse me, Counsel.
24 Are we basically talking about the numbers on
25 the second page, not what's up on the slide? On the

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1 second page of the exhibit, there seems to be
2 percentages.
3 MR. BAKER: Yeah, I didn't realize the exhibit
4 had two pages.
5 BY MR. BAKER:
6 **Q. So tell us what the first page is and what the**
7 **second page is.**
8 A. Well, the first page is the second page in
9 graph form; so it represents what's being shown on the
10 screen. The second page is just those actual numbers
11 that are being displayed in graph form. So since the
12 people holding the exhibit, the percentages were cut off
13 in the margin. You can reference them on the back.
14 **Q. So in Rate Year 2015, the COLA adjustment was**
15 **2.24%?**
16 A. Correct.
17 **Q. And CPI was 2.79%?**
18 A. Correct.
19 **Q. And that if pension had been included as a**
20 **part of the fixed labor cost, the COLA would have been**
21 **2.44%?**
22 A. Yes.
23 **Q. And similar numbers are provided for 2016 and**
24 **2017?**
25 A. Yes.

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1 **Q. You've indicated that you think this would be**
2 **a similar way of approaching it. Why simpler?**
3 A. Well, you know, the last rate application
4 fixed that pension increase based on, you know, an
5 actuarial assessment that was performed by Towers
6 Watson. My preference would be to not have it involve
7 an actuary in something that I think obviously doesn't
8 result in a significant change. It simplifies it.
9 It's one less input that we have to worry about. And
10 then also I think the structure would more accurately
11 reflect how these benefits are bargained.
12 **Q. Explain that a little bit.**
13 A. When we negotiate payroll increases, a pension
14 increase is health and welfare. It's part of a package.
15 And so if we were to negotiate an increase, we look at
16 all the components, and pension and payroll costs are
17 negotiated together. So therefore, including those
18 costs together, I think, just more intuitively makes
19 more sense.
20 **Q. Is it fair to say that some locals prefer**
21 **increases in wages versus increases in pension and some**
22 **might want a little more pension at the expense of more**
23 **wages?**
24 A. Right.
25 **Q. And if you package it all together, you think**

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1 **it gives a more accurate reflection of what's going on?**
2 A. Correct. Certain unions may want a sweeter
3 pension versus higher wages, and vice versa; so it just
4 combines those two elements.
5 **Q. Lastly, let's turn to the subject of capital**
6 **assets and how they're treated for accounting purposes**
7 **in the application.**
8 **Let's focus first on the proposed West Wing.**
9 A. Sure.
10 **Q. How does the application treat that in terms**
11 **of expensing the capital cost?**
12 A. Currently is treated as a depreciable asset.
13 **Q. And would Recology on reflection like to**
14 **change how that's presented?**
15 A. Yes.
16 **Q. In what way?**
17 A. We would like to move that to become a leased
18 asset.
19 **Q. What's the difference?**
20 A. Essentially, a leased asset incorporates a
21 financing percentage, a charge associated with that
22 lease.
23 **Q. Has Recology expensed capital assets as leases**
24 **in any prior applications?**
25 A. Yes.

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1 **Q. Can you describe that?**
2 A. The last iMRF that Maurice discussed earlier,
3 the first version of that that we're currently operating
4 was a leased asset.
5 **Q. And that was approved in 2001 rate hearing?**
6 A. Yes.
7 **Q. And what about trucks and those types of**
8 **capital assets?**
9 A. Yes, those are leased.
10 **Q. In terms of the proposed West Wing, who is**
11 **going to be the lessor and who is going to be the**
12 **lessee?**
13 A. Recology Leasing would likely be the lessor,
14 and we would be Recology San Francisco, the lessee.
15 **Q. Would that change in accounting treatment**
16 **having any impact on the proposed rate adjustments?**
17 A. Yes.
18 **Q. In what way?**
19 A. It would increase the collection rate increase
20 of 1.5% approximately.
21 **Q. And again, why is that a better way to do it?**
22 A. You know, in terms of having discussions
23 with our banks, we realized that this application
24 contemplates a significant amount of capital outlay.
25 And in those discussions, we realized that the cost

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1 associated for financing all of those capital
2 improvements work to be significant and we need to
3 ensure that we had a proper return on those investments,
4 and this treatment would ensure that.
5 **Q. And it's also consistent with how Recology has**
6 **treated certain capital assets in the past?**
7 A. Yes.
8 **Q. What about the two contingent schedules?**
9 A. The consistent treatment that I described.
10 So we would like to -- currently those are being treated
11 as depreciable assets, moving those to a leased asset.
12 **Q. Do you propose to submit amended schedules --**
13 A. Yes.
14 **Q. -- to the City promptly so that you can be**
15 **asked about those when we reconvene on the 28th?**
16 A. Yes.
17 MR. BAKER: I have nothing further.
18 Thank you.
19 DIRECTOR NURU: Okay. I think a maybe --
20 MR. BAKER: Oh, I do have something further.
21 Sorry.
22 So this is Exhibit 47?
23 MR. PRADHAN: This would be 47.
24 (Exhibit 47, "Armanino COLA Report
25 [Recology]," was admitted into evidence.)

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1 BY MR. BAKER:
2 **Q. What is exhibit 47, Mr. Porter?**
3 A. The document here is "Cost of Living
4 Adjustment Mechanism" proposed by the companies that
5 was prepared by Armanino.
6 **Q. So Exhibit 47 is, I believe, a seven-page**
7 **document entitled "Cost of Living Adjustment (COLA)**
8 **Mechanism" --**
9 A. Yes.
10 **Q. -- prepared by Armanino LLC, dated March 8th,**
11 **2017?**
12 A. Correct.
13 MR. BAKER: And we had that admitted,
14 Mr. Pradhan?
15 MR. PRADHAN: Yes, admitted. Thank you.
16 BY MR. BAKER:
17 **Q. And this is an analysis that was prepared at**
18 **your request?**
19 A. Yes.
20 **Q. And again, by Bill Brause of Armanino?**
21 A. Yes.
22 **Q. Which is an accounting firm?**
23 A. Correct.
24 **Q. And what is the purpose of this particular**
25 **report?**

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1 A. The purpose of this report is to just
2 illustrate the proposal that we discussed in the
3 narrative portion of the rate application, to detail out
4 the different cost component and how they arrived at
5 these difference percentages.
6 **Q. And it provides data that shows how the COLA**
7 **would work if the pension element was wrapped into the**
8 **fixed labor cost component?**
9 A. Right. Yes, it does.
10 MR. BAKER: So I'm now completed. Thank you.
11 DIRECTOR NURU: All right. I think at this
12 time we should probably take a 15-minute break, and
13 we'll begin the hearing promptly at 10:30 with
14 cross-examination.
15 Thank you.
16 (Off the record at 10:15 a.m.)
17 (On the record at 10:30 a.m.)
18 DIRECTOR NURU: Okay. We are back in session
19 and we will begin the cross-examination.
20 Ms. Dawson?
21 CROSS-EXAMINATION
22 BY MS. DAWSON:
23 **Q. Good morning, Mr. Porter.**
24 A. Good morning.
25 **Q. So I'm going -- since you started off your**

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1 **presentation on rate structure, I'm going to start**
2 **there.**
3 A. Okay.
4 **Q. And I'd like to talk about the increases on**
5 **various components of the residential collection rates.**
6 A. Okay.
7 **Q. Which you've already referred to on page 12 of**
8 **Exhibit 2 which you were bringing up here earlier and**
9 **you presented the technical workshop back in February.**
10 **So Recology is proposing to essentially, you**
11 **know, maintain its current rate structure, meaning you**
12 **have a fixed unit charge and volume charges for the**
13 **three bins -- black, blue and green. And according to**
14 **the exhibit, the unit charge is going up and then some**
15 **of the volumetric charges are actually going down.**
16 A. Mm-hmm.
17 **Q. How did Recology arrive at the respective**
18 **changes for each component of the rate? What was its**
19 **process?**
20 A. Logic?
21 **Q. Yeah.**
22 A. Well, as Mike and I were talking about
23 earlier, the unit charge reflects the fixed cost of our
24 business. And so that, we're trying to get closer to
25 the actual economics which we showed through the

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1 Armanino exhibit being about 60% of our costs are fixed.
2 Whereas if you look at our previous revenue arrangement,
3 having a \$5 dollar fixed charge relative to, you know,
4 the average customer's bill for a 32/32/32 customer of
5 \$35 dollars doesn't reflect the economics. 1/7th of
6 those costs are recovered through a fixed charge whereas
7 this new unit charge is \$20 dollars of a \$40.88 bill
8 which is about 50%, which is closer to the 60% percent
9 reflected in Armanino's analysis.
10 The other consideration on the other
11 components, as I mentioned earlier, you know, the green
12 and blue cost to process exceed currently the black
13 trash costs. And so increasing those incrementally over
14 time will not disincentivize customers from doing the
15 right thing; so continuing to have an incentive to move
16 towards those composting and recycling services.
17 And then lastly, the rate structure also
18 considered what I would consider a significant change
19 in service for many of our customers, which is the
20 standardization of the 16 gallon black and the 64 gallon
21 blue. So the rate structure also contemplated this
22 rollout, and since this rollout, will take about two
23 years to complete. We wanted to ensure that the
24 customers who are on the back end of that rollout plan
25 will not be disproportionately financially hit by the

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1 timing of the rollout.
2 And so you'll notice that the price for a
3 32/32/32 customer currently will be the same as a
4 customer that pays for a 16/64/32 for a single-family
5 home. So if you're on the front end of the rollout or
6 the back end of the rollout, you know, it's not going to
7 have any economic consequences to the consumer.
8 **Q. So were there other combinations of increases**
9 **and decreases in the rate components that Recology**
10 **considered when it was going through analysis to prepare**
11 **for this application?**
12 A. Yes.
13 **Q. Can you --**
14 A. Sure. Yeah, we had several considerations
15 include a \$10 dollar unit charge, and several iterations
16 in between that and the \$20 dollars. You know,
17 unfortunately we were able to hit a sweet spot in terms
18 of the number of customers that are as close as possible
19 to the 16.4% rate increase that proposed using the
20 \$20-dollar structure while also, you know, maintaining
21 that kind of economic incentive for the blue and the
22 green that we discussed as well as, you know, that
23 rollout timing. So yes, several different iterations
24 were contemplated.
25 **Q. So how will the increases in subsequent years**

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1 **work? Say you have a proposed 4.4% increase in the**
2 **rates in Rate Year '19 and a 0.6% of Rate Year '21.**
3 **How is that going to be applied?**
4 A. I would anticipate that would occur through
5 the same way at the timing in which we, you know,
6 increase them as part of the COLA calculation; so it
7 would just be an additive amount on top of the COLA.
8 **Q. So each component would get an assessed**
9 **increase?**
10 A. Yes.
11 **Q. Is there any significance to the charge with**
12 **the black bin being two times the charge of the blue and**
13 **green bins?**
14 A. Meaning "significance," like in terms of --
15 **Q. Is there some reason -- you know, you've kind**
16 **of hinted a little bit to it. It allowed you to keep**
17 **parity between one default service and what I think is**
18 **probably pretty common right now.**
19 A. Agreed. So as I mentioned, the 32/32/32
20 customer will pay the same as a 16/64/32 customer.
21 The 16/64/32 customer will receive 16 gallons more of
22 service in the recycling component on a net basis.
23 In addition, we're kind of incrementally stepping closer
24 to cost of service; so right now, blue and green are
25 \$2 dollars roughly per 32 gallon. Moving it to

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1 \$5 dollars is a step towards more closely approximating
2 our cost of service for those bins.
3 And then lastly, it's also an incentive.
4 As I mentioned earlier, it's cheaper on a per-gallon
5 basis to recycle and compost for the consumer; so we're
6 incentivizing good behavior. It's similar to how we do
7 the Diversion Discount structure for apartments and
8 commercial customers. This is also an incentive
9 structure in that the blue and green service is half the
10 cost of the trash.
11 And then lastly, the hope is with the pilot
12 program and the future black cart processing, the cost
13 of trash processing will also be an incremental expense
14 and eventually, you may see our cost structure more
15 closely approximate the current rate structure that we
16 are proposing.
17 **Q. So I've noticed that you commented that the**
18 **rate increase is being characterized as an average**
19 **increase of 16.4% for single-family residences in the**
20 **first year?**
21 A. Yes.
22 **Q. Will all customers experience the same**
23 **percentage increase?**
24 A. No.
25 **Q. Can you speak to that a little more?**

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1 A. Sure. Just as many customers have different
2 services, you know, different services will have a
3 different increase. And so a customer who may be on
4 the lower end of the spectrum on a volumetric basis --
5 for example, our 20 gallon customers right now,
6 20 gallon/32/32, will see a larger increase under the
7 proposed structure. And we've contemplated easing that
8 increase by providing them a one-year \$5 dollar credit
9 per month to help offset that increase.
10 MS. DAWSON: I think this would be a helpful
11 time for me to introduce a exhibit that kind of walks
12 through that. It looks at old versus new and small
13 quantity generators.
14 MR. PRADHAN: This will be Exhibit 48.
15 (Exhibit 48, "Sample Changes in Single
16 Family Residential Charges [City],"
17 was admitted into evidence.)
18 (Exhibit 48 is displayed.)
19 BY MS. DAWSON:
20 **Q. It's a little small, but I hope -- yeah, there**
21 **we go. That's a little bit better.**
22 **So let's sort of look at the top first.**
23 A. Mm-hmm.
24 **Q. So we've talked a lot about the current**
25 **default service levels and rates, which is the first**

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1 **column going from left to right.**
2 A. Mm-hmm.
3 **Q. So you can see that right now, that would cost**
4 **a customer of that service configuration \$35.18.**
5 A. Mm-hmm.
6 **Q. The new price for that same service level**
7 **under the proposal would be \$40.88?**
8 A. Mm-hmm.
9 **Q. And as we talked about and you showed in your**
10 **exhibit, if you convert to the new service level, you**
11 **end up with the same price?**
12 A. Mm-hmm.
13 **Q. If you decide to simply go down for the black**
14 **bin but retain the 32 gallons for recyclables and**
15 **compostables, customers would pay \$35.66, which is**
16 **pretty close to what they're actually currently paying.**
17 A. Correct.
18 **Q. So I think that you've said that there would**
19 **be ways for customers to mitigate the potential impact**
20 **of the increasing rates.**
21 A. Mm-hmm.
22 **Q. Is this the kind of trade-off you were**
23 **describing?**
24 A. Exactly. This is exactly what I was talking
25 about.

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1 **Q. Okay. And then for customers who decide**
2 **they want to retain the 32 gallon for the black and**
3 **the green but decide to increase their service for the**
4 **Amazon Effect that we've been describing, they would**
5 **then pay \$46.10?**
6 A. Correct.
7 **Q. So if we look at the lower table, one of the**
8 **things we've alluded to briefly in some of the prior**
9 **discussion is concern on what happens to small-quantity**
10 **generators -- in other words, people who are already**
11 **doing the right thing by not producing as much waste and**
12 **thus not having as much waste to treat.**
13 **Q. Mm-hmm.**
14 A. So right now, if you have a 20 gallon black,
15 a 32 blue and a 32 green, you pay \$25.47.
16 A. Mm-hmm.
17 **Q. Under the proposal, that cost would go up to**
18 **\$31.97, but there is a corresponding \$5 dollar one-year**
19 **offset; is that correct?**
20 A. Yes.
21 **Q. Okay. But in year 2, that offset is proposed**
22 **to Sunset. And so in year 2, those customers would then**
23 **see an increase up to \$36.97.**
24 A. So one slight modification to this would be
25 that we are going to grandfather these 20 gallon

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1 customers in. Since we're eliminating the 20 gallon
2 cart, we're going to offer the 20 gallon customers the
3 16 gallon rate as upon rollout.
4 **Q. Okay.**
5 A. And so that is just kind of a -- one, for
6 simplicity purposes. In terms of managing these old
7 containers, we don't want to pull back perfectly good
8 20 gallon containers; we just want the cost. And then
9 also, two, it's not a significant change.
10 And so we're going to keep those in place,
11 but we are going to offer those customers the 16 gallon
12 rate as a sign of good faith that they were kind of
13 early adopters, if you will, for this new normal.
14 **Q. Okay. And so that would actually affect their**
15 **rate by reducing their bin charge to the \$5.22?**
16 A. Correct. So effectively, a \$1.30 decrease per
17 month, yes.
18 **Q. Okay. So are there other changes that you're**
19 **planning in terms of bin size adjustments for your**
20 **current customer base? Are there any services you're**
21 **eliminating?**
22 A. Yes. We we plan to eliminate the 96 gallon
23 black from the residential structure. So if you
24 currently have a 96 gallon black, that will be exchanged
25 for a 64 gallon black.

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1 **Q. How does the level of service vary? I know**
2 **you have an awful lot of different types of service**
3 **profiles. But generally speaking, how do you see the**
4 **distribution of your customers within those kind of**
5 **bands of different bin sizes? Just at a high level.**
6 A. I would say roughly half the customers fit
7 into that 32/32/32 service configuration, single-family
8 home.
9 **Q. Okay. And are you concerned -- and I know**
10 **that you're of course intending to shrink the black and**
11 **hopefully encourage people to stay with the same blue**
12 **and green or at least increase the blue.**
13 A. Mm-hmm.
14 **Q. Are you concerned about some of reductions,**
15 **especially with the black, that you might**
16 **disincentivizing any of the customers?**
17 A. Can you clarify the question? In terms of --
18 are you saying if I reduce the black price from \$25.90
19 to \$10.44, people will be incentivized to keep using that
20 black?
21 **Q. Yeah.**
22 A. I don't know. It's still twice as expensive
23 as the blue and the green, so I still think that
24 incentive remains.
25 **Q. Your hope is that that's going to be a**

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1 **sufficient incentive for people to recycle and compost**
2 **more?**
3 A. Right. For comparable service, you know,
4 I hope that people wouldn't be willing to pay twice as
5 much.
6 **Q. So how have the customer behaviors that you're**
7 **anticipating been factored into Recology's projections**
8 **in terms of migration of customers both in the apartment**
9 **and residential rate structures that you're proposing?**
10 A. So I would talk about them in isolation.
11 So residential, we're assuming that 90% of the
12 32/32/32 customers will accept the 16 gallon trash and
13 the 64 gallon blue overall. But then we're expecting
14 also that the 20% of those customers that accept the
15 16 gallon black will maintain the 32 gallon blue, which
16 is kind of reflected in the \$35.66 customer that you've
17 shown in the fourth column from the right in terms of
18 offerings.
19 **Q. Okay. And then you factored those base**
20 **assumptions into what the revenue assumptions were?**
21 A. Into our revenue assumptions, correct. Yes.
22 **Q. And the apartment rates, was there any thought**
23 **to that?**
24 A. In the apartment rates, there is a 1%
25 migration per year included in our revenue requirement.

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1 **Q. Do you do you see that apartment rates pose**
2 **any kind of special challenges in terms of incentivizing**
3 **them or certain kinds of outreach?**
4 A. You know, I probably wouldn't be the best
5 person to talk about the challenges associated with
6 changing apartments' service level configurations.
7 But I do see in the data that they are less likely to
8 modify the service. So you know, in terms of
9 incentives, we have seen more movement with the
10 commercial customers than the apartment customers from
11 the Diversion Discount rate structure.
12 **Q. Okay. So moving briefly to the question on**
13 **the COLA, the Towers Watson report that you're**
14 **referencing --**
15 A. Yes.
16 **Q. Is that a report that was prepared to support**
17 **the rate application in 2013 from Recology's side?**
18 **Or was that a report that was -- or an analysis that was**
19 **requested while the rate review process was going on?**
20 A. That is my understanding that it was a report
21 that was requested as a part of while the rate review
22 was going on, yes.
23 **Q. And that was requested from the City to**
24 **Recology?**
25 A. Correct.

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1 **Q. Okay. But Towers Watson was your actuarial**
2 **company for purposes of pension estimates?**
3 A. Yes, and continues to be now.
4 **Q. Okay. That's all I have on rates for now,**
5 **but I'd like to briefly move on to a discussion about**
6 **some of the rebates to ratepayers.**
7 A. Sure.
8 **Q. From the Zero Waste ncentive funds.**
9 A. Okay.
10 **Q. And I have another exhibit. But before I get**
11 **there, I actually have some questions that are specific**
12 **to the rate application and some of the use of these**
13 **funds.**
14 A. Okay.
15 MS. DAWSON: So I'm going to ask --
16 These are two pages of the rate application.
17 If you could put the first one, which has the tape on
18 it.
19 (Exhibit 1 is displayed.)
20 BY MS. DAWSON:
21 **Q. So it's the table here. So we're looking at**
22 **page 13 of Recology Sunset Scavenger, Golden Gate, and**
23 **the proposed use of both -- it's really the Special**
24 **Reserve fund. But there's -- I'm going to get to Zero**
25 **Waste in a minute. There's actually another table**

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1 **that's included in the back on the supporting**
2 **documents --**
3 A. Yes.
4 **Q. -- that I want to show. Okay.**
5 MR. BAKER: Just for clarify, the first
6 page that you showed was page 13 of the Summary of
7 Assumptions, which is part of the application,
8 Exhibit 1.
9 MS. DAWSON: Correct.
10 BY MS. DAWSON:
11 **Q. And this next table was in the back, the very**
12 **back tab --**
13 A. Yes.
14 **Q. -- where there were a lot of supports of**
15 **capital programs and other things.**
16 A. Yes.
17 **Q. So Mr. Porter, I believe there was a bit of a**
18 **discrepancy between the table "Summary of Assumptions"**
19 **and this back attachment. And in particular, I want to**
20 **draw attention to this "848" number, and I'd just like**
21 **you to speak to it a little bit. It has to do with the**
22 **use of the Special Reserve funding to cover the**
23 **incremental costs --**
24 A. Yes.
25 **Q. -- associated with the transport and use of**

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1 **the landfill --**
2 A. Yes.
3 **Q. -- under the landfill agreement.**
4 MR. BAKER: Which tab are we now looking at?
5 THE WITNESS: K.
6 BY MS. DAWSON:
7 **Q. So we're looking at under Tab K, at the very**
8 **back of the rate application, there's a table described**
9 **as "Special Reserve Fund and New Revenue Fund, 2017 Rate**
10 **Application." And then what I just want to bring to**
11 **Mr. Porter's attention is that there's a difference**
12 **in -- there's an implicit assumption here that ties this**
13 **table together with the table in the back, and I'd just**
14 **like Recology to speak to that relationship more**
15 **explicitly so that it's clear.**
16 A. Sure. So one thing of note, in working with
17 staff at SFE, we are planning to provide a revised
18 schedule for K at next hearing; so that will change.
19 But I believe your question in particular was related to
20 the 848,000.
21 **Q. Yeah. What I'm trying to understand is what**
22 **that number represents and for you to explain it, and**
23 **why it is that it's affecting your proposed use of the**
24 **application of the Special Reserve that would ultimately**
25 **go to the ratepayers. So I'm just trying to get you to**

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1 **talk through what's going on with these numbers.**
2 A. So when we requested the initial reimbursement
3 out of the Special Reserve fund -- and maybe for those
4 that are not familiar, it'd be worth a little bit of
5 history here.
6 **Q. Mm-hmm.**
7 A. In January of 2016, Recology changed landfills
8 from Altamont Pass/Waste Management to Hay Road. And in
9 lieu of a rate increase associated with this change, we
10 requested that we utilize funds out of the Special
11 Reserve fund, which was created as part of that disposal
12 agreement to, you know, counteract any unforeseen
13 expenses that may be incurred related to landfill costs.
14 And so it was discussed and approved through
15 Rate Board resolutions that we would be able to utilize
16 these funds to offset those cost increases. And at the
17 time, the anticipated costs were a little in excess of
18 \$12 million dollars. \$12 million dollars was granted
19 for approval to be transferred to the new reserve fund
20 for the purposes of reimbursing us for these additional
21 costs.
22 Since that time, costs have exceeded the
23 initial estimates. As a result of some changes in
24 addition to fees through an amendment to the landfill
25 agreement, the first amendment, and therefore our costs

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1 have slightly exceeded -- well, maybe not slightly, have
2 exceeded the initial estimate as a result.
3 **Q. Okay. So at this point, this is a projected**
4 **number?**
5 A. Yes.
6 **Q. We're not exactly sure how we'll end up ending**
7 **Rate Year '17?**
8 A. Correct.
9 **Q. So let's return to the other table.**
10 **So in your rate application, you're proposing**
11 **to make transfers over three years instead of all at**
12 **once. Can you speak to the reasoning behind that?**
13 A. Absolutely. So the Special Reserve fund, as I
14 mentioned, it was created to pay for any -- so it's kind
15 of to shield ratepayers, in a sense, to protect the
16 ratepayers from any unforeseen expenses and liabilities
17 associated with the landfill disposal.
18 And since that agreement at Altamont hasn't
19 long passed, we believed it would be most appropriate to
20 decrease the money that remains in that fund over time
21 in the event that liabilities were to arise. And as
22 time passes, it's our belief that the risk of a
23 liability arising decreases and therefore we would
24 decrease that fund, you know, systemically over the
25 expected term of the rate.

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1 **Q. And it's possible that the projected larger-**
2 **-than-anticipated costs of transporting and disposing at**
3 **the new landfill agreement, you might be requesting use**
4 **of that Special Reserve fund in some amount, yet is a**
5 **projection to mitigate that?**
6 A. At the time this application was prepared,
7 yes, this was my estimated cost. That may differ. The
8 hope would be it will be less. Any difference would be
9 reflected in the offset to the ratepayers.
10 And it's also worth noting that the
11 schedule in Section K does not contemplate any further
12 interests earned on these funds, which will be earned,
13 but wanted to be conservative when presenting these rate
14 increases -- didn't want to overpromise in terms of the
15 amount of rebates that we'll provide; so we will provide
16 an estimated amount as a part of that revised schedule
17 to reflect that.
18 **Q. So it's possible at the end that you -- we**
19 **would eventually be able to reach the desired threshold**
20 **between the old reserve and the new reserve, and given**
21 **that we're earning interest in this fund, it's possible**
22 **we wouldn't need to do anything more to reach the new**
23 **reserve balance?**
24 A. Correct.
25 **Q. Okay. And at the end of all this, if we do**

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1 **have a balance, is there some proposal that you're**
2 **anticipating would happen with those remaining funds?**
3 A. Yes. I would propose that any additional
4 remaining funds would be included as the revenue offset
5 for Rate Year 2020; so return to the ratepayers as soon
6 as possible.
7 **Q. Okay. So let's now talk a little bit about**
8 **the Zero Waste Incentive funds.**
9 A. Sure.
10 MS. DAWSON: So I have have a new table that
11 I'm going to display -- blind mice.
12 And asking for this to be included as a new
13 exhibit.
14 MR. PRADHAN: This will be Exhibit 49.
15 (Exhibit 49, "Distribution of Zero
16 Waste Incentive Funds [City],"
17 was admitted into evidence.)
18 BY MS. DAWSON:
19 **Q. Okay. So our consultants or three have**
20 **prepared a table based on the information that's in**
21 **Section K of the rate application.**
22 A. Mm-hmm.
23 **Q. It's the same information that's in there.**
24 **It's a little bit slightly reformatted and it's color**
25 **coded so that people can kind of see more clearly maybe**

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1 **what's going on. So the top table shows the amounts**
2 **that have been deposited into the fund, and then the**
3 **lower shows the distributions and the uses of the funds.**
4 A. Mm-hmm.
5 **Q. So by the end of Rate Year '17, a total of**
6 **\$31.7 million will have been collected and deposited**
7 **into the Zero Waste fund over the past five years, more**
8 **or less.**
9 A. Mm-hmm.
10 **Q. Of that amount, Recology met the diversion**
11 **goals for the first two tiers of Rate Year '13, which is**
12 **the year right before the last application review**
13 **process, and earned \$3.1 million --**
14 A. Correct.
15 **Q. -- about 10%.**
16 A. Mm-hmm.
17 **Q. Consistent with the Director's Report**
18 **from 2013, a portion of the unearned funds was used to**
19 **offset cost of living adjustments, or the COLAs that**
20 **would have gone into effect last July; is that correct?**
21 A. Yes.
22 **Q. And that was worth about \$4.3 million?**
23 A. Correct.
24 **Q. Okay. So the Director's Order from 2013 also**
25 **permitted Recology to request unearned Tier 3 and 4**

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1 **funds for investments in new technologies to increase**
2 **diversion. And we've already heard about the use of**
3 **that, with the investments at Recycle Central, which**
4 **took another \$12.4 million or 39%, as well as**
5 **expenditures for a textile program; is that correct?**
6 A. Correct.
7 **Q. So that leaves about \$11.6 million, which**
8 **is 37% of the value that Recology is proposing to use**
9 **to offset a portion and the rate increase for Rate**
10 **Year '18, which would begin July 1st.**
11 A. Right.
12 **Q. So how much of the total increase is being**
13 **offset by using those Zero Waste Incentive funds?**
14 A. I believe 3.5% or 4% roughly. I don't have
15 that number in front of me, actually.
16 **Q. So while you're contemplating that number, I**
17 **think that's about right, 3.8%.**
18 A. Okay.
19 **Q. Why is Recology proposing to rebate these**
20 **funds in one year and not spread them out over three**
21 **years like you've done with the Special Reserve?**
22 A. Good question. Special Reserve fund, as I've
23 mentioned, there's some potential liability that would
24 be associated with that money whereas the Zero Waste
25 Incentive account doesn't have a corresponding potential

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1 liability associated with it. And the Director's Report
2 that you referenced earlier also instructed us to rebate
3 those funds, and so we are trying to do so as quickly as
4 possible. And so by doing that, it would be rebating
5 that in the first year of the rate increase.
6 **Q. So a portion of the funds of the Zero**
7 **Waste Incentives are actually collected by Recology**
8 **San Francisco; right?**
9 A. Correct, yes.
10 **Q. So why then is Recology applying the entire**
11 **fund balance to offset the cost of collection rates?**
12 A. Very good question. It basically comes down
13 to -- one second, I have this written down here. Bear
14 with me. I wish I had notes.
15 It comes down to the fact that most of the
16 Zero Waste Incentive funds are collected through the
17 collection companies by the ratepayers. And then also
18 90% of Recology San Francisco's revenue comes from the
19 tip fee paid for by the collection companies. And so
20 therefore nearly all of the Zero Waste Incentive funds
21 were, in effect, paid for by the collection ratepayers.
22 **Q. And so is there a corresponding difference if**
23 **you were to apply them one way or another?**
24 A. There is. If we were to apply it to Recology
25 San Francisco, it would have a slight detrimental effect

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1 to the collection ratepayers. It would increase their
2 rate slightly. Very small.
3 MS. DAWSON: Okay. So I have some additional
4 questions, but I'm going to hold them for now.
5 DIRECTOR NURU: Okay. Does the Department of
6 Environment want to ask questions?
7 Okay.
8 THE WITNESS: I think the Ratepayer Advocate
9 did have questions.
10 DIRECTOR NURU: Okay.
11 MS. DILGER: Thank you.
12 EXAMINATION
13 BY MS. DILGER:
14 **Q. Back to the per-unit fee again.**
15 **Apologies for any redundancy here.**
16 A. No, that's okay.
17 **Q. But we've heard about its impact on low-waste**
18 **producers, but also multi-unit buildings that are two to**
19 **five units. We're hearing a lot of concern from**
20 **ratepayers that this would disproportionately affect**
21 **them. When we look at the graphs, it's comparative to**
22 **the single-family residents. But for many of these**
23 **multi-units, they share bins, they share pickups.**
24 **So if you could again explain the justification for**
25 **this quadruple price crease from \$5.16 to \$20 dollars**

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1 **per unit.**
2 **Q. So one thing I would like to just reiterate**
3 **is we can't really look at one piece in isolation. You**
4 **have to really look at the entire structure as a part of**
5 **a whole. This dwelling unit charge is part of a whole**
6 **unit charge. So we're decreasing our black charge from**
7 **\$25 dollars -- roughly \$25 dollars to \$10 dollars; so I**
8 **don't see any questions about that, unfortunately,**
9 **but --**
10 **Q. Of course not.**
11 A. Maybe next time. So basically since we're
12 decreasing that price, we have to offset that decrease
13 with an increase to the dwelling unit charge, and I
14 already described why that's necessary because of
15 our cost structure. It's also worth noting that
16 volumetrically, multi-unit buildings aren't
17 significantly different than single-family homes in the
18 Sunset. They're typically using 32 gallons of trash
19 service in some cases. And so if you look at, first of
20 all, the cost and the volume, they're relatively
21 similar. So it's -- you really have to kind of look at
22 it as a whole package versus just this one particular
23 charge.
24 **Q. How do you address multi-unit buildings that**
25 **have different practices? Anyone that's lived in a**

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1 multi-unit building knows that there's probably one
2 residence that's really good and one or two that are
3 really bad. Some of our landlords and some of the
4 tenants who are ratepayers have asked, "Should I request
5 separate bins and separate bills and not have to share
6 my bins with neighbors who don't recycle as well?"
7 A. I probably wouldn't want to speak in
8 generalities, but that sounds like a good idea to me in
9 the sense that if one group of people in a building want
10 to do a better job at recycling or composting and
11 there's some bad actors in that building, I think it
12 would be in their best interest to move towards
13 recycling and composting services.
14 **Q. And since so many of them are managed by**
15 **property managers, sometimes by landlords who live in**
16 **site, any opportunities there are for outreach and**
17 **education there -- just want to put on the record --**
18 **a lot of the multi-unit buildings do want to change, but**
19 **don't know how to. And that's been a consistent**
20 **feedback.**
21 A. I would ask you to maybe direct that question
22 to another -- maybe the general managers.
23 **Q. Thank you.**
24 A. No problem.
25 **Q. Last week we heard a bunch of different types**

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1 **of of recycling that you'll be able to accept with this**
2 **new program. We would like know were those products go,**
3 **but for you the question is what's the cost for this new**
4 **diversion, specifically if textiles and plastic wrap --**
5 **what is the cost in conjunction with the amount of**
6 **diversion percentage-wise?**
7 A. Are you asking how much does it cost to
8 recycle these materials and how much is included in the
9 rate increase?
10 **Q. Yes.**
11 A. No specific cost element has been included in
12 the rate application associated with the recycling of
13 textiles. We have included that set of corresponding
14 increase in revenue for the additional materials we
15 anticipate to recover, but no specific costs have been
16 included other than some additional workers to sort the
17 material.
18 **Q. Okay. It was brought up earlier the lifeline**
19 **rate for low income people is actually, I believe, you**
20 **have to earn less than \$24,000 dollars.**
21 A. Yes, that sounds right.
22 **Q. Do you know the last time this rate was**
23 **updated, and if it is --**
24 A. I believe it's updated annually.
25 **Q. Okay. And then the last question I have has**

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1 **to do with revenue and profit. Many ratepayers are**
2 **concerned about the cost of real labor and services**
3 **versus Recology's profit margin. How much profit does**
4 **Recology make annually and is it limited by your**
5 **contract with the City?**
6 A. I believe it was discussed in the first
7 hearing that we have a regulated operating ratio
8 requirement of 91% to 89%. Right now, the rate
9 application contemplates a 91% O.R., which is lower,
10 and that we have 2% of incentives in the form of Zero
11 Waste Incentive tier goals, which are the additional 2%;
12 so it's a half a percent per tier, four tiers.
13 And to kind of answer the overarching theme
14 of the question, it's my understanding that many
15 municipalities in California have a similar structure
16 and that our regulated profit margin is consistent with
17 those municipalities.
18 **Q. So you would say it's pretty comfortable to a**
19 **regular U.S. city, or just in California?**
20 A. I can't speak to U.S. cities in general, you
21 know, but I can say that in Northern California, in some
22 municipalities, this structure exists and our profit
23 margins are consistent with those.
24 DIRECTOR NURU: Any additional
25 cross-examination from the City? No?

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1 Okay. So at this time, we'll move to next on
2 the agenda item, the City's presentation on the impound
3 account.
4 So Julia, how would you like to --
5 MS. DAWSON: We're going to start with the
6 Department of the Environment.
7 MR. BAKER: If I may, before we do that,
8 I just want to ask one more question of Mr. Porter.
9 Maybe I don't need to.
10 REDIRECT EXAMINATION
11 BY MR. BAKER:
12 **Q. But based on the least question, the idea that**
13 **89% O.R. is more profit than 91% O.R. is not intuitive**
14 **to a lot of people.**
15 A. Correct.
16 **Q. And so can you briefly describe how the O.R.**
17 **calculations work to determine profit?**
18 A. Sure. So in Schedule B.1 of each rate
19 application for the collection companies and
20 San Francisco, we get an operating ratio based on
21 allowable expenses; so costs that are allowed for
22 recovery. And those costs are divided, in essence,
23 by that 91% O.R. to arrive at a revenue requirement.
24 And so dividing the cost by 91% is less than dividing it
25 by 89%, for example.

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1 **Q. And the 89% O.R., which would equal more**
2 **profit --**
3 A. Yes.
4 **Q. -- results from success under the Zero Waste**
5 **account?**
6 A. Correct. We have disposal goals -- four tiers
7 of disposal goals.
8 MR. BAKER: During the break I indicated to
9 staff that we didn't have any other witnesses today,
10 and we're happy to do the impound account. But I just
11 wanted to let you know that Mr. Quillen and Mr. Negrón
12 are both available to talk about the head count
13 questions that were raised last week and about the
14 Abandoned Waste/Bulky Item alternative analysis that you
15 also requested.
16 So it's your pleasure, we're happy to provide
17 those witnesses or wait till next week.
18 MS. DAWSON: I think we'd happy to hear that.
19 DIRECTOR NURU: We can. Yeah, we can ask
20 those questions if you're ready to ask them.
21 MS. DAWSON: It's more them presenting back to
22 us.
23 MR. BAKER: So maybe we'll have both of them
24 come up for efficiency, and we can take care of that.
25 DIRECTOR NURU: Okay.

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1 (Mr. Quillen and Mr. Negrón step up to the
2 witness stand.)
3 MS. PEARCE: Ms. Dawson, how would you like me
4 to proceed? Would you like me to ask the follow-up
5 questions or would you like to re-ask the questions that
6 you asked last week?
7 MS. DAWSON: That's fine.
8 If I have other questions, I'll jump in.
9 MS. PEARCE: Okay, sounds good.
10 I'll start with Mr. Negrón.
11 DAN NEGRÓN,
12 having been previously duly sworn,
13 was examined and testified as follows:
14 DIRECT EXAMINATION
15 BY MS. PEARCE:
16 **Q. Ms. Dawson last week asked you a couple of**
17 **questions referencing Exhibit 29. Specifically she**
18 **asked you some questions about the Recology Sunset**
19 **Scavenger/Recology Golden Gate head count changes from**
20 **2013 to 2016. Have you had a chance to review those**
21 **changes and are you prepared to explain them today?**
22 A. Yes, I did review her Exhibit 29. Forgive me
23 if I start just coughing. I'm just getting over a cold,
24 but I will plow through this.
25 So Ms. Dawson, I have your overview reference

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1 as far as Schedule G.1 for head count, table 3.
2 And specifically what I'd like to do is just
3 talk about the actuals; so if I can just cover initially
4 Rate Year 2014, '15 and '16, and what the delta -- what
5 the variance is on that.
6 **Q. Let me just jump in real quick.**
7 **You said you're looking at table 3 on**
8 **Exhibit 29; is that right?**
9 A. Yes.
10 **Q. And why are you referring to table 3 instead**
11 **of table 2?**
12 A. I think it's much easier at a high level to
13 explain our head count from a solid number. As far as
14 the number of employees, we had finance run the numbers
15 basically average per year on solid head count instead
16 of going into a full-time equivalent, which can be a
17 little challenging. There's a lot of variables there
18 with overtime and casual employees. If you're okay with
19 that, let me just talk strictly to table 3 and just
20 explain the delta on those.
21 A. That's fine.
22 **Q. Thank you. On the actuals from 2014, '15**
23 **and '16, the difference between '14 and '16 came out**
24 **to 22 additional head count. I broke that down by two**
25 **categories: union, and then exempt/non-exempt.**

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1 **Under the union, we netted an increase. And**
2 **when I say "net," there's a lot of movement between**
3 **different programs. Ultimately, I'm responsible to make**
4 **sure that everything gets picked up and the customers**
5 **get serviced based on the changes in the economy and the**
6 **operational challenges that we have day to day.**
7 **So the net increase was an additional 14 in**
8 **the union side, and that was mainly to support the**
9 **progressive growth of the AMC program when we first**
10 **rolled it out. It also supported -- what we talked**
11 **about earlier, the Bulky Item Recycling growth of almost**
12 **41% percent increase from Rate Year '14 to '16, and then**
13 **we saw significant increase in debris box service.**
14 **Tonnages from '14 to Rate Year '16 went up almost 17%.**
15 **And if you were to reference the Schedule F.1, you'll**
16 **see revenues starting at \$13 million and in Rate Year**
17 **'16, almost went to \$21 million. So there was**
18 **significant growth in the city that supported -- that**
19 **netted this 14 increase on the union side.**
20 **On the exempt side, we had two major**
21 **categories -- two major strategies. That was to support**
22 **waste zero and push diversion -- and to the Ratepayer**
23 **Advocate earlier, a lot of outreach for our commercial**
24 **and our apartments. And it also supported debris box**
25 **growth in those two categories, and that was a net**

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1 **effect of 8.**
2 **So combine 14 on union and 8 on exempt/non-**
3 **-exempt, the net effect was 22. And I can speak -- if**
4 **you want, I can cover '17 and I can also cover '18?**
5 MS. DAWSON: If you'd like, you can go ahead
6 and finish up on the years.
7 THE WITNESS: So for '17, which is what we're
8 in right now -- so the jump-off point from '16 was 643.
9 We're estimated to be at 651. That's an additional 8 by
10 the end of Rate Year 2017. That's estimates because
11 we're still out recruiting in some of the portions.
12 The net 8 increase was broken down again,
13 union was plus 4, and exempt/non-exempt, it was an equal
14 amount of 4. Under the union side, we continued to have
15 growth in the Bulky Item Recycling. Just between '16
16 and '17, there's an additional 14% estimated based on
17 our trends today. We increased support in our call
18 center, and we also supported two additional mechanics
19 -- getting into the weeds now -- in support of trucks
20 with the addition of the capital expenditures as far as
21 collection vehicles for AMC and other programs.
22 On the exempt side, we went up 4 in that
23 effect. Again, that supported our waste zero strategy.
24 We're really aggressive on community outreach and
25 diversion. We did add specifically a shop supervision

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1 we're currently recruiting today in this rate year for a
2 night shift supervisor. We also bumped up our route
3 maintenance specialists who support the Routeware.
4 We implemented in this rate year alone, we
5 have -- Golden Gate I believe has about 40 Routeware
6 units that are deployed through various amount of
7 collection vehicles, and then Sunset Scavenger has an
8 additional 20; so we had to add staffing to manage the
9 new data. There's an incredible amount of data that
10 we're collecting both in the operational-side and in the
11 customer service-side that we'll need to manage; so
12 that's in for this rate year. Again, the delta 8 from
13 643 to 651.
14 And what are we asking for in Rate Year '18?
15 So the the jump-off point is 651. We're asking for
16 a total for 2018 of 694. That's an additional 43.
17 The 43 is broken down again. On the union side, the net
18 increase is 35, and on the exempt/non-exempt is 8,
19 totalling 43. On the union side, we are looking at --
20 as outlined in the rate application I talked about these
21 last two hearings, the diversion focus service
22 adjustments, to Porter's point, the 16 gallon/64 gallon
23 plan that we have operationally. And also to implement
24 those route changes for the trash/recycling/compost
25 along with the continuing growth in Abandoned Material

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1 and the Bulky Item Recycling programs on the union side.
2 On the exempt/non-exempt side additional 8,
3 we continue focusing on the waste zero to support the
4 conversion from 16 to 64. More community outreach.
5 We have in the proposal to Routeware the entire fleet,
6 and so that's going to require additional head count to
7 manage the route management systems.
8 We're also going to be focusing on special
9 events. The city, at times, more often than none,
10 we have a lot of special events on weekends. We use a
11 lot of debris box service that requires -- where folks
12 get a significant amount of Diversion Discount. And
13 we're going to need -- in partnership with the
14 San Francisco Environment, we've been talking about this
15 for a while -- special event diversion auditors to
16 manage that to make sure that these special events are
17 doing the right thing as far as three-bin system at a
18 much higher volumetric level. And we're looking
19 specifically at a service compliance manager.
20 All the different nuances to diversion and
21 managing your bill, we're finding that we're going to
22 need somebody in the system to make sure that the folks
23 are in compliance; so we're constantly working with
24 San Francisco Environment and the Public Works to ensure
25 that service levels meeting the minimum standards as

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1 outlined in the rates. So that's the overall transition
2 from 2014 to our projected 2018.
3 MS. PEARCE: Would you like to talk to
4 Mr. Quillen about his head count changes or should I go
5 on to speaking to Mr. Negron about AMC and Bulky Item
6 Recycling?
7 MS. DAWSON: Let's keep going on the
8 collection side, Counsel.
9 MS. PEARCE: Sounds good.
10 BY MS. PEARCE:
11 **Q. Last week Ms. Dawson also asked you some**
12 **questions about whether Recology has considered**
13 **combining the Bulky Item Recycling program and the**
14 **Abandoned Materials Collection programs we discussed last**
15 **week and if doing so, might achieve some efficiencies.**
16 **Have you had a chance to think about that question and**
17 **come to any conclusions?**
18 A. Yes. Yes, we have.
19 **Q. Have you prepared a slide that outlines a**
20 **potential combined program?**
21 A. Yes.
22 (Exhibit 55 is displayed.)
23 MS. PEARCE: All right. I'd like to move the
24 admission of Exhibit 50, I believe. It's a slide
25 entitled "Abandoned Material Collection/Bulky Item

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1 Recycling."
2 MR. PRADHAN: Admitted.
3 (Exhibit 50, "Abandoned Material
4 Collection/Bulky Item Recycling [Recology],"
5 was admitted into evidence.)
6 BY MS. PEARCE:
7 **Q. All right. Mr. Negron, describe if you would**
8 **what this slide shows and what Recology's proposing.**
9 A. Okay. On the left side, I have broken down
10 what we've proposed in Rate Year 2018 in this current
11 rate application. For the Abandoned Material
12 Collection, I'm asking for 12 drivers or basically
13 6 crews, and again, continuing supporting the standard
14 level agreement of servicing the requests within four
15 hours during business hours.
16 **Q. And just to make it clear, the 12 drivers and**
17 **six crews, how much is a proposed increase over what**
18 **you're currently operating with?**
19 A. We're currently operating at 10 per program.
20 So for each of these programs, we're asking for 2
21 additional or a total of 4 drivers and 4 trucks.
22 So in the Bulk Item Recycling program, we are
23 also requesting 12 drivers, 6 crews. We're currently at
24 10 with a response time currently of equal to or greater
25 than 48 hours on an appointment system. So in summary,

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1 we're looking for 12 crews and 24 drivers.
2 **Q. For both of the programs as proposed under the**
3 **2018 rate application?**
4 A. Yes. So under the combined -- based on
5 Ms. Dawson's suggestion last week, we went back to the
6 operations team and kind of looked at it very closely.
7 We propose we could do the job with 20 drivers and
8 10 crews working in partnership throughout the city.
9 We're going to request that the Abandoned
10 Material Collection program, we will continue servicing
11 those customers within four hours if the calls come in
12 before 12:00 p.m., and anything that comes in after
13 12:00 p.m. we will route the following day. And that
14 gives us greater efficiency on the back end as far as
15 the number of calls, and it still meets the City's needs
16 of four hours or less.
17 We will also propose under the Bulky Item
18 Recycling the same parameters. If the customer wants
19 bulky items collected before 12 o'clock, we will service
20 it the same day. That's a significant improvement to
21 the 48 hours or greater that we're doing now.
22 The only issue is that I ask that when we
23 combine the two programs -- and these are two very
24 popular programs -- in theory, I can receive a
25 significant amount of calls in one day. I'm asking that

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1 we have a limit of 600 calls per day. If I receive 600
2 requests or greater than 600 requests before 12:00,
3 I ask that I'm able to route those the next available
4 day. And the reason why is because we have patterns in
5 our data where we'll receive 800 to 900 calls in one
6 day. And right now under the Bulky Item Recycling, we
7 schedule it and we can manage that, and under the
8 Abandoned Material Collection, we pick it up within four
9 hours.
10 And I can tell you that if we get greater than
11 600 calls, we will make AMC the priority because I know
12 that's an important program as far as keeping the city
13 clean. So when we prioritize, we will go after the AMC
14 first. So that's our proposal as far as keeping the
15 head count status quo.
16 DIRECTOR NURU: Just for clarification.
17 "A day" is seven days a week?
18 THE WITNESS: It's a good question, Mohammed.
19 So right now "next day," under the Bulky Item
20 Recycling, is next business day. So if the customer
21 calls after 12 o'clock on Friday, we will schedule it
22 for Monday. Abandoned Material will continue seven days
23 a week. We will pick that up.
24 We can talk -- I mean, I can go back and do an
25 analysis. But if we were to include Bulky Item

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1 Recycling on the weekends, it would be incredibly --
2 it would be a lot of calls, Director. And we can
3 manage that, but I don't think we can do it with the
4 20 drivers. I'm trying to stay within the parameters of
5 10 crews. It would be significant.
6 CROSS-EXAMINATION
7 BY MS. DAWSON:
8 **Q. So can you kind of elaborate a little bit more**
9 **about the demand for service that you're seeing this and**
10 **why you think you need 20 drivers to make this**
11 **successful? The other thing I'm a little interested in**
12 **hearing more about is you mentioned peaks. Do you think**
13 **it would be possible to schedule for those peaks? Are**
14 **they predictable in any way?**
15 **For instance, I know from looking at our**
16 **current tonnage data that we do have certain seasonality**
17 **affects in Bulky Item and Abandoned in particular around**
18 **the holidays, and around move-in/move-out for university**
19 **timing. Are those the peaks you're alluding to? And if**
20 **so, could you handle those by just knowing that you're**
21 **going to schedule overtime for that period to respond to**
22 **those calls rather than increase crew size over the**
23 **entire year?**
24 A. Yes. We can manage overtime. We can
25 definitely manage the overtime to support the surges,

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1 but frankly, the surges occur every month. At the end
2 of the month and at the beginning of the month, we see
3 significant calls in Abandoned Material Collection
4 almost doubles. We'll go from 250 calls a day to 420,
5 and then our partners at Public Works are just as
6 vigilant out there at the end of the month and at the
7 beginning of the month and they'll augment all those
8 calls from what they're seeing in the field. So it
9 happens monthly.

10 Customers will still be able to schedule their
11 appointments if they prefer. Not the next day, we can
12 definitely accommodate a BIR that they're planning on
13 scheduling for down the range that will not be a
14 problem.

15 **Q. So your goal though is to at least offer the**
16 **customers the soonest available date, and that's**
17 **potentially quicker than what you can offer now?**

18 A. Yes. So right now we can offer the earliest
19 is 48 hours. Sometimes sooner if the peaks go down.
20 But what we're willing to do now -- to your point,
21 Ms. Dawson, there is greater efficiency if I were to map
22 the drivers in a smaller time zone where they can really
23 go after the AMC and the BIR; so we're going to gain
24 efficiencies there.

25 So that's what I'm saying, I think I can do

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1 **concerned about abandoned material and they clearly love**
2 **the bulky item program, and I'd like to be able to meet**
3 **the service requests that we're getting now.**

4 A. I just want to be clear.

5 Are you interested in running Bulky Item
6 Recycling seven days a week? Would that be something
7 that you'd be -- because it would impact. I mean, I can
8 keep it at five days and AMC at seven.

9 DIRECTOR NURU: I think we should look at the
10 data because AMC's at seven now and Bulky Item's at
11 five. We should look at what the data is. I think on
12 the weekend, sometimes it's easier to get stuff and
13 people are able to put things out and you're able to
14 grab it. So you might see it peak on the weekends
15 versus at the end of the month.

16 THE WITNESS: Right. And we'll take a look at
17 that. We don't have data on BIR on the weekends because
18 we don't offer that service, but we can look at the AMC
19 experience and presume that those are BIR-potential
20 appointments.

21 BY MS. DAWSON:

22 **Q. And one thing you might find is if you offer**
23 **BIR on the weekends, maybe you'll have less abandoned**
24 **materials. I mean, if there's this relationship with**
25 **move in/move out -- which is why it's attractive to**

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1 it -- I know I can with the 10 crews, 20 drivers, and
2 with the aggressive -- meeting the customers' needs as
3 far as BIR within anytime before 12 o'clock. I just ask
4 for the 12 o'clock because we're going to gain a lot of
5 routing efficiencies if I can get some of these requests
6 routed in our system and get it into Routeware for the
7 drivers the next morning. Then they can just really --
8 they'll hit the streets. The first four hours, they're
9 just going to be going after what came in the night
10 before minus the abandoned material that's the priority.
11 And then after lunch, they're just going out there
12 picking up whatever 311 throws at them.

13 So I think it's going to be very successful.
14 You're going to see some increases in both programs.

15 **Q. I think we'd love to see a little more call**
16 **volume data and some of the analysis that lay behind**
17 **this just so we can look at it a little more, but I do**
18 **appreciate the thought that went into this. And maybe**
19 **to the point of surges, maybe we do need to look at**
20 **whether it makes sense to schedule a certain amount of**
21 **overtime inherent.**

22 **And maybe that means you add not a whole crew,**
23 **but some relief people to kind of supplement. I'd at**
24 **least like to look at what the cost implications of that**
25 **might be, because the reality is the public is really**

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1 **combine the two programs; right? There's the sense that**
2 **they would be mutually beneficial if they're combined.**

3 A. Okay. We'll get you some more data on that.

4 **Q. Thank you. I actually do have a couple of**
5 **quick end questions.**

6 **I just want to kind of the confirm. We were**
7 **having a conversation about the single-chamber recycling**
8 **routes and then the impact of potentially reducing the**
9 **number of routes, which was something that was at least**
10 **briefly discussed and I think brought up also on public**
11 **comment.**

12 **So I just want to first clarify just how much**
13 **excess capacity there would be if the single-chamber**
14 **recycling routes as you've currently proposed them.**
15 **So my understanding is that on average, you're planning**
16 **to collect 4 tons of mixed recyclables in an 8-hour day.**
17 **And your testimony said that you have a maximum payload**
18 **on the trucks of about 6 tons.**

19 **So based on those figures, we're thinking that**
20 **the trucks would be about at 2/3rds of capacity when you**
21 **first started to run them. Does that sound correct?**

22 A. That's correct.

23 **Q. Okay. So based on those figures, we're also**
24 **estimating that the amount of materials that the single-**
25 **chamber recycling trucks could collect above and**

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1 **beyond, we can get 50% percent more collections without**
2 **the need for additional routes.**
3 A. Yes, we aggressively routed the trash
4 component of the split-body assuming that these great
5 programs are going to get folks to change behaviors. So
6 when we reduce from 119 to 106 split-bodies, it was to
7 aggressively load up the 50% side of the trash.
8 And that leaves the drivers working at -- what I'd like
9 is an 8-hour day, right at the limit, which then affords
10 them an opportunity to pick up as many green containers
11 as possible until they reach their -- ultimately want
12 them to reach their max capacity.
13 But to your point, there is built capacity for
14 both systems as long as the behavior moves in the right
15 direction. And we will not need to add trucks -- I
16 talked about this last time. If things go right and I
17 reduce the trash side, I might be able to consolidate
18 more trash -- the 50/50 vehicles and just kind of follow
19 the migration with the same capital.
20 **Q. So there's more room for operational**
21 **efficiencies, potentially, there over time provided that**
22 **the migration away from the black happens. Because it**
23 **sounds like you believe you have enough capacity in the**
24 **green.**
25 A. I do. Yes.

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1 **Q. Okay. So your proposal increases proposes to**
2 **add 23 new daily routes. And based on the information,**
3 **it seems that -- like you said, you're targeting an**
4 **8-hour day, and we're believing that's because you're**
5 **trying reduce over time. So does that mean that a**
6 **reduction in the number of routes -- so say we reduced**
7 **by one -- we would then end up increasing the number of**
8 **overtime hours. What does that exchange look like?**
9 A. Hypothetically, if we were to reduce by one
10 route, we would -- to my point earlier, trash is at its
11 max capacity. We would need to -- you have a cause and
12 effect. So basically you might push the crews into two
13 loads -- a very light second load, which doesn't make
14 sense for them to do a round trip to pick up a couple of
15 blocks that pushed them over the limit where they just
16 can't pack anymore.
17 **Q. What about recycling, though? If you were**
18 **given these single-body recycling trucks and you know**
19 **you have excess capacity, I think it's really the**
20 **recycling routes we're focused on in terms of potential**
21 **reduction in the number of routes and whether or not you**
22 **think you could -- I guess in terms of transportation --**
23 **cut the routes a little longer.**
24 **So you'd be adding a little bit of overtime**
25 **and eventually we'd be able to kind of hit a sweet spot**

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1 **where we have fewer routes with a little bit of built-in**
2 **overtime, and that would reduce both the head count**
3 **expense and the equipment cost -- understanding there's**
4 **a balance here that you don't want to push too much**
5 **overtime. But we're interested in understanding what**
6 **that trade-off would look like.**
7 **Q. When we routed these single-stream blues and a**
8 **pilot demonstrated that it's a matter of time, there is**
9 **plenty of stops for the drivers to go there and chase**
10 **these blue containers. The problem is you physically**
11 **run out of time before you max out the vehicles; so it's**
12 **just a matter of stops. So we do have built-in**
13 **capacity. I definitely don't want to give up the**
14 **capacity and push these guys greater than 8 hours.**
15 **Right now, they're averaging 7.5 as far as the**
16 **single-stream organics, but these same drivers would now**
17 **be pushed almost 8.20 in their day picking up**
18 **single-stream single-chamber recyclables. It's not a**
19 **matter of capacity; it's really a matter of time and**
20 **number of stops.**
21 **Q. It sounds like you're concerned about building**
22 **overtime into the schedule as something that you would**
23 **just consider doing. Can you describe a little bit more**
24 **about why that would be -- that you consider it to be an**
25 **operational challenge for you?**

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1 A. Overtime is -- okay, I'm going to back it up
2 and put on my G.M. hat now.
3 My ultimate responsibility, my number one
4 priority is to my employees' safety and the public's
5 safety. It's a partnership when we launch 350 trucks
6 every day. These are dealty-sensitive jobs, these
7 drivers dealing with the public every day and physically
8 doing the job. I'm regulated very closely by the
9 Department of Transportation. I get reviews every
10 24 months on all of my drivers if not by the highway
11 patrol, I get reviewed by third parties. But every
12 24 months, they look at the training records, they look
13 at all of their injuries and accidents, OSHA law 300,
14 it's a very intense process. And all of our
15 maintenance. In addition, I'm monitored very closely by
16 Cal/OSHA.
17 Everyone knows industry-wide this is a very
18 dangerous job, and so the risk of leaving our guys out
19 there further just enhances my core responsibility for
20 their safety and that of the public. And so if my guys
21 are going to get scheduled out there for whatever time,
22 right now I'm projecting at 8.20. If I push them to
23 8.45 or 9.0, it just increases the -- it derogates
24 statistically the risk inherited with our drivers just
25 out there mixing it up with bicyclists and cars and

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1 MUNI buses and et cetera.
2 So I do all my routing -- all my preplanning
3 is designed to get them as close as 8 hours as possible.
4 The overtime just comes in when there's challenges
5 operationally or weather conditions like this morning
6 with the rain. Those are the overtime factors.
7 But I don't like to operationally just pre-plan an
8 8-and-a-half-hour day because it just inherently becomes
9 a public safety problem and an employee safety problem.
10 They both run hand in hand. I'm sorry I put my G.M. hat
11 on.
12 **Q. I'm wondering if you have any safety or**
13 **workers' compensation or other data that you'd like to**
14 **provide to us that backs up that sense.**
15 A. Yeah. We can -- I can get with my friend
16 Porter and we can look at all our workers' comp
17 experience and ALGL experiences. It's in the rate, but
18 we can expand on that.
19 **Q. I think that would be helpful.**
20 A. Okay.
21 DIRECTOR NURU: Okay. Any other
22 cross-examination?
23 MS. DAWSON: We'll wait on Mr. Quillen until
24 the next hearing.
25 DIRECTOR NURU: Okay. Then we should proceed

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1 with the impound account presentation.
2 MR. HALEY: I'd like to invite Jack up.
3 (Mr. Macy steps up to the witness stand.)
4 JACK MACY,
5 having first been duly sworn,
6 was examined and testified as follows:
7 DIRECT EXAMINATION
8 BY MR. PRADHAN:
9 **Q. Good morning. Could you state your name and**
10 **title, please.**
11 A. Yes. Jack Macy. I'm the Commercial Zero
12 Waste Senior Coordinator for the Department of the
13 Environment.
14 **Q. And how long have you served in that position?**
15 A. Since 2002.
16 **Q. What are your general duties as related to**
17 **refuse rate setting and collection?**
18 A. Well, I oversee the commercial sector for
19 Zero Waste and I also am involved in helping to review
20 the proposed rates. I'm also involved in helping to put
21 together the Zero Waste budget and track that, and
22 that's part of the impound.
23 **Q. Part of the impound account?**
24 **Is that what you said?**
25 A. Yes.

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1 **Q. What is the impound account?**
2 A. The impound account is a fund that is used to
3 cover specific costs for the Department of the
4 Environment and the Department of Public Works.
5 **Q. And the impound account is funded by the**
6 **rates; is that right?**
7 A. That's right.
8 **Q. And there is about \$19.7 million allocated to**
9 **the impound account in Rate Year 2018 under the**
10 **application. Is that your understanding?**
11 **Is that right?**
12 A. Right.
13 **Q. Is that application, that amount, commensurate**
14 **with the size of past rate applications?**
15 A. I can comment on the Department of the
16 Environment's portion. And the Department of
17 Environment, what was listed in the final rate
18 application was \$11,210,800. And we actually have a
19 revision of that reducing that by \$10,000 dollars.
20 So I would actually like to introduce an exhibit on
21 that.
22 MR. PRADHAN: Let's do that.
23 That can be Exhibit 51.
24 (Exhibit 51, "Impound Expenses [City],"
25 was admitted into evidence.)

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1 THE WITNESS: And I want to get to your
2 question. So with regards to the Department of the
3 Environment's portion, that is commensurate with
4 previous rate applications.
5 BY MR. PRADHAN:
6 **Q. And to the best of your knowledge, is that**
7 **allocation roughly proportional to what other**
8 **communities receive from their franchising agreements?**
9 A. Yes. And I -- to the best of my knowledge
10 believe that more broadly, everything that's going
11 through the impound account is proportional to other
12 jurisdictions. It's quite a range, but on average,
13 it's roughly proportional.
14 **Q. Okay. Why don't you walk us through**
15 **Exhibit 51. What is Exhibit 51?**
16 A. Okay. So exhibit 51 is a -- it's a summary of
17 the Department of the Environment impound expenses that
18 are funding by the impound account, so for the
19 appropriate funding-by-program area. And so this
20 provides an overview of the different budget areas of
21 the Department of the Environment, and it shows how much
22 would be spent for each of the different program areas
23 that are funded at least in part by the impound account.
24 This was developed in conjunction with
25 each of these program areas following guidelines the

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1 Department's been using since 2005.
2 **Q. And I understand you have some more**
3 **information for us regarding the specifics of these**
4 **different programs; is that right?**
5 A. Yes. I would actually like to introduce
6 another exhibit.
7 MR. PRADHAN: This will be admitted as
8 Exhibit 52.
9 (Exhibit 52, "Impound Funded Projects Summary
10 [City]," was admitted into evidence.)
11 BY MR. PRADHAN:
12 **Q. Mr. Macy, as we hand out Exhibit 52, can you**
13 **explain what it is?**
14 A. Yes. So this is a summary description of the
15 different programs in the Department of Environment that
16 are being funded by funds from the impound account.
17 I wasn't going to go into detail of all the funded
18 projects described here, but I will say that most of
19 these projects were to implement policies and programs
20 directly to move the City towards its zero waste goal.
21 This includes, for example, within Zero Waste
22 and outreach program areas. And I will say with regards
23 to that, the previous exhibit had a separate budget for
24 outreach. In this description, the outreach activities
25 are folded within the other program areas. So within

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1 Zero Waste, the average associated with Zero waste and
2 so forth is within that description.
3 So for Zero Waste, the primary emphasis has
4 been on implementing our Mandatory Recycling and
5 Composting Ordinance, which includes helping ensure all
6 properties have adequate refuse service and are
7 participating in our separation programs. As part of
8 that effort, much outreach is needed for neighborhood
9 campaigns, residential curbside and apartment program
10 outreach, commercial and institutional assistance,
11 school programs, special collections, events, and so
12 forth.
13 We also have continuing work to do with
14 implementing other related ordinances and programs,
15 including reducing food service-ware and packaging
16 waste, checkout bag ordinance, various city government
17 programs. We have nonprofit grant programs to help
18 strengthen waste prevention, reuse, and other recovery
19 infrastructure, and Construction & Demolition debris
20 recovery. These are examples of the many programs and
21 activities within Zero Waste and our outreach efforts
22 that constitute much of the expenses.
23 I also want to point out that as has been
24 noted in previous testimony by Recology, recent economic
25 and social factors such as a construction boom and

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1 growing and changing population with 850,000 residents
2 and 650,000 employees, are contributing to increases in
3 disposal and making achieving zero waste more
4 challenging. We see the need for additional resources
5 and actions to reverse this trend and making
6 San Francisco closer to zero waste.
7 To address this challenge, as has been
8 presented in the rate application, we have the most
9 significant facility and program changes since the
10 introduction of the three-stream program in 2000.
11 This includes changing which bins certain materials will
12 belong, with more going to recycling with the proposed
13 16 gallon trash and 64 gallon recycling.
14 So all this is necessitating requiring a large
15 multilingual multi-touch outreach effort to all sectors
16 in San Francisco to really remind everyone that what is
17 the -- the how, the what, and the why of participating
18 in our programs and all the associated messaging and
19 collateral out there as well to change that message.
20 So we are seeing an increase requested for that outreach
21 effort.
22 **Q. So I guess just to quickly summarize, the**
23 **funds that would be allocated to the impound account**
24 **would be spent at least by the Department of Environment**
25 **on the activities you just described and are summarized**

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1 **in Exhibit 52; is that right?**
2 A. Yeah, that's a major portion of it. There are
3 additional efforts as described in the latest exhibit,
4 other program areas such as toxics and so forth.
5 **Q. Right. Could you describe for us the approval**
6 **process for expenditures from the impound account? How**
7 **do you ensure that funds from that account are spent**
8 **appropriately?**
9 A. Sure. There's several sets of processes that
10 the Department goes through in developing programs and
11 developing budgets. First, we have a strategic planning
12 process for the Department that we go through, and it
13 and it outlines priority areas for each of our programs.
14 Secondly, we have an analysis of what we do
15 every fiscal through the budget process. We prepare a
16 budget internally, and then that is taken to our
17 commission, It's taken to a committee of the commission,
18 and then it goes through to the full commission.
19 Third, it is then submitted to the Mayor's
20 budget office and it runs through the Mayor's budget
21 process.
22 And then fourth, it then goes to the Board of
23 Supervisors and run through the Board of Supervisors'
24 budget process. So there are a number of steps and
25 processes in the way of developing the budget and

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1 program plan each year.
2 I also say that we have internal checks and
3 balances on spending the money to ensure that they're
4 the approval for expenditures. These are run through
5 program managers and through the Deputy Director or
6 Director, depending on how much, to authorize any
7 expenditure of the impound account. We also track all
8 our time that staff spends through an online tracking
9 system; so all our hours are logged to make sure that
10 impound account hours are properly allocated and
11 accounted for.
12 So we have a number of different ways to
13 ensure that the money is appropriately used.
14 MR. PRADHAN: Thank you. I don't have any
15 further questions.
16 DIRECTOR NURU: Okay, time is running.
17 I think we should go to public comment. But before
18 that, I would ask the Ratepayer Advocate if she had any
19 last questions.
20 Okay. Can I see a show of hands of people who
21 would like to speak. All right.
22 PUBLIC COMMENT BY LLOYD THIBEAUX
23 MR. THIBEAUX: My name is Lloyd Thibeaux.
24 The thing I have is I'd like to know how many
25 grants are going to be presented to get a grant. That

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1 make any sense to you?
2 DIRECTOR NURU: Yeah.
3 MR. THIBEAUX: I know they're going to make a
4 grant, so why the 16%? And then 5% percent after
5 that -- so it's not 16% and 5%, it's 16% and 5%
6 compounded. So it's probably about a 35% rate.
7 Somebody could answer that. I guess I came up here to
8 talk because everyone's been up here talking.
9 And then the other thing is that how much
10 money are they making on this recycling right now?
11 I know they're making a fortune, so why are our rates
12 going up? And we have a duplex and we only have three
13 cans. So why should we be paying for six cans?
14 We don't have enough garbage. The guy that stays
15 downstairs, he's gone most of the time and we're old and
16 we don't have that much garbage anymore; so we should be
17 able to get smaller cans than bigger cans because we
18 really don't fill the cans up right now, except for the
19 recycle. We do that.
20 And what's the other thing I have here --
21 and then with all this computer stuff they're doing,
22 whenever you have technology, people are laid off.
23 They said they're not laying off people, but they're
24 going to lay people off because Facebook, Google,
25 everybody lays somebody off because they got more

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1 technology. So to say you're not laying anybody off,
2 you're going to keep the people, I don't think that's
3 right either, the story they're telling us.
4 That's what I have to say.
5 DIRECTOR NURU: Thank you for your comment.
6 Next person.
7 PUBLIC COMMENT BY DAVID PILPEL
8 MR. PILEL: David Pilpel.
9 I don't have a lot of time and I'm going to
10 try to cover some territory here, and I've got a funeral
11 in an hour for Natalie Berg.
12 DIRECTOR NURU: You have five minutes.
13 MR. PILPEL: Thank you.
14 MR. PILPEL: The DPW website that I've talked
15 about at prior hearings, more stuff keeps popping up
16 there, which is great. Same thing on the Recology side,
17 in particular, the RSF schedules that were made into a
18 PDF only have the odd pages. It's a 66-page document;
19 there are only 33 pages. It's onlt the odd pages.
20 The transcript from the first hearing is
21 supposed to be made available by today, I think. Will
22 that be posted on the website any time soon?
23 MR. PRADHAN: We'd have to check if it's
24 ready.
25 MR. PILPEL: That'd be great.

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1 The exhibit binders, I understand that
2 Recology or somebody may be working on a list of
3 exhibits -- an index to the exhibits. It would be great
4 if that gets updated after each set of hearings and
5 inserted in the binder so we can remember what
6 Exhibit 19 is. Because someday, Exhibit 19 --
7 I actually wanted to introduce two exhibits,
8 if I may. I don't think the Port Commission agenda from
9 March 14th was the most relevant, but I do believe that
10 the staff report on Item 11C at that meeting, which is
11 13 pages, is one exhibit; and I believe a 15-page
12 presentation, a PowerPoint that was given there,
13 I wanted to introduce those, if I might, as two
14 exhibits.
15 MR. PRADHAN: Why don't you give those to the
16 clerk and we can mark them and distribute them at the
17 next hearing.
18 MR. PILPEL: Okay, that would be great. And I
19 actually have an electronic version. I wasn't able to
20 print out color copies; so if I can get an electronic
21 version of that to Julia and maybe they can do color
22 copies and distribute to the whole world. I'm not going
23 to ask questions about those right now, but I thought
24 they should be in the record. It speaks to some of
25 Maurice and Meghan's points about the iMRF development

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1 at Pier 96.
2 DIRECTOR NURU: If you give them to us, we'll
3 accept them and turn them in as evidence.
4 MR. PILPEL: Can we reserve 53 and 54 for
5 those?
6 MR. PRADHAN: Yes.
7 MR. PILPEL: Thanks.
8 More on the iMRF and Pier 96. In the
9 future -- just a couple of other quick points. I'm not
10 sure that we've heard yet the total rate impact of the
11 current proposal, understanding that there's some tweaks
12 going on plus the expected COLA or range of COLA numbers
13 and with the contingent schedules, if they're triggered
14 as anticipated. So it certainly appears to be about
15 16.4% in the first year, but I'm not sure when we get to
16 Rate Year '20 what the likely increase will be in that
17 year with those kinds of assumptions.
18 There was discussion earlier of trash
19 processing. I'm not sure that we got a clear answer on
20 the cost of processing trash versus the disposal cost,
21 and to some extent, what the diversion impact is.
22 It may not be a cost-effective investment, but it may be
23 a worthwhile Zero Waste investment and we should be able
24 to look at least what the cost impact is.
25 Just touching on Pier 96 for a second, I think

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1 one of the real unknowns there is the cost of the
2 seawall work at Pier 96 and whether the Port absorbs
3 that or some of that goes into the Recology lease cost.
4 That may also be a schedule risk for the iMRF project.
5 Probably talk about Tier 3 and 4 another time
6 and this vacuum thing that I found buried somewhere.
7 There's been discussion about proportionality,
8 and I haven't heard enough about the proportional
9 impacts of rate changes and potential disproportionality
10 for different customer types. Julia got into that a
11 little bit today, but I think there may be some other
12 examples and ways to look at whether the impacts are
13 being felt proportionately ly or not throughout the rate
14 types or the rate pays.
15 I'm also not sure if the low-income discount
16 programs and, for that matter, the base and variable
17 rate cost allocations and cost recovery are comparable
18 to the SFPUC or other utility types, or for that matter,
19 other garbage and recycling collection companies
20 elsewhere. It may be, it may not be, but I just don't
21 see enough evidence in the record on how those things
22 compare.
23 And just some final points, then I'm done.
24 The change in asset treatment today, I think,
25 the pretty substantial. \$100 million dollars of asset

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1 investments, whether it's a direct investment or a
2 lease, has impacts on rates, has impacts on customers.
3 I continue to believe we need to look at ratepayer
4 equity and how much more investing in whether ratepayers
5 have an interest in that.
6 The way that the Company might treat lease
7 costs for tax and other incentive credit, I don't
8 understand that enough, but perhaps rate consultant can
9 look carefully at how that flows through and what the
10 impacts are.
11 And just finally, on the apartment example,
12 the six-unit apartment building that only 32 gallons of
13 composting, that's actually less than the minimum
14 service requirement. Under the current rate order, the
15 minimum service requirement for composting is 8 gallons
16 per unit per week. So 8 times 6 is 48. They shouldn't
17 be in a 32 gallon; they should be at least 48 gallons of
18 service, and the smallest container available for that
19 is a 64 gallon green. So if I'm going to get a somewhat
20 disproportionate impact by only having a 32 gallon
21 container available for a single-family residence, then
22 I want to be darn sure that a multi-family building is
23 held to that same minimum service standard.
24 Thank you. More next week.
25 DIRECTOR NURU: Thank you.

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1 Any other public comments?
2 Okay. At this time, I'd like to continue this
3 hearing to next Tuesday, March 28, at 8 o'clock in this
4 same room, Room 416. We will continue with the items
5 listed on the agenda and hopefully wrap up this initial
6 series of Director's Hearings.
7 I want to thank everyone for participating in
8 these proceedings, and our session is adjourned.
9 Thank you.
10 (Ending time: 12:00 p.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 10th day of April, 2017.
18
19
20
21

22 _____
23 MAXIMILLIAN A. CONTRERAS
24 CSR NO. 13875
25

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