



December 11, 2012

VIA HAND DELIVERY

Mr. Mohammed Nuru, Director
Mr. Douglas Legg, Manager of Finance and Budget
Department of Public Works
City and County of San Francisco
City Hall, Room 348
1 Dr. Carlton Goodlett Place
San Francisco, CA 94102-4645

Re: 2013 Draft Rate Application

Dear Mr. Nuru and Mr. Legg:

The San Francisco collection and processing companies (the Companies) are pleased to submit the following draft rate application for the period of July 1, 2013 to June 30, 2014.

It is a privilege to serve the City and County of San Francisco, its residents and businesses, as we have for nearly 100 years. We are particularly proud of our shared accomplishments, working closely with the City to build and maintain our joint status as the nation's leader in innovative waste diversion programs. Together we have made great progress over the last several years. San Francisco had set a goal of 75 percent diversion by 2010, and we are pleased the City exceeded that goal by achieving an 80 percent diversion rate for 2010, again affirming the City's national environmental leadership. The City was recently named the Greenest City in North America, in large part due to its 100 percent score on the waste diversion and resource management portions of the evaluation.

The City has an even more ambitious goal of Zero Waste by 2020. Meeting this challenge will require significant changes to the current service and rate structure, along with new facilities and processing capabilities. The attached draft rate application represents a meaningful step towards reaching that goal.

One of the key elements of the draft rate application is the proposal to make structural changes to both residential and apartment rates in an effort to maintain a sustainable revenue stream. During the last rate period (2006-2011), there was significant migration from trash (black) service to diversion (blue and green) service. The migration was a result of the customers' embrace of the existing diversion programs and the mandatory recycling and composting ordinance. Under the existing rate structure, this migration resulted in reduced revenues, while at the same time the Companies' costs have increased

to provide the expanded diversion services now required. As we move towards zero waste and as the trash stream continues to shrink as a percentage of total service, it is vital that the rate structure apply charges to all services. The overall costs of providing service (labor cost, vehicle costs, customer service and administrative support) apply to all types of service, irrespective of the color of the bin or the materials inside. In addition, the proposed structures are intended to continue to promote diversion services, along with encouraging source reduction, important parts of the City's Zero Waste definition.

Another key element of the draft rate application is the inclusion of costs associated with processing compostable materials that customers still deposit in the trash (black) cart. This additional processing activity is an important part of the diversion program, since a significant portion of the trash stream is compostable. Planning and entitlement costs for new facilities, along with operating costs for additional black cart processing, are included in the Recology San Francisco projections.

The proposed residential rate structure includes some significant changes. The current charge, although it covers all residential service costs, is calculated solely on the volume of the black cart. The proposed structure will include a fixed charge, based on the number of units in any building (residential service is defined as any building with less than 6 units), a nominal volumetric charge for blue and green carts, and a charge for the black cart. Residential customer rate increase percentages will vary depending on the composition and volume of service. The Companies will cap the maximum increase in order to partially mitigate the impact of the structural change. This proposed structure is an initial step towards matching the cost components for residential service.

The proposed apartment structure also includes some significant changes. The proposed structure is similar to the discounted-volumetric structure currently employed in the commercial sector. This structure is intended to charge equally for each type of service and allow discounts for diversion services. The new structure also includes a per unit fixed charge. The discount, up to 75 percent of the volumetric portion of each bill, is based on diversion volume in excess of 10 percent as a percentage of total volume. This approach is designed to encourage apartment customers to increase their diversion services. To partially mitigate the impact of implementing this structural change, the Companies are proposing to include a three-year cap for all apartment customers. The first year cap would be 25 percent of the increased charges under the new structure, moving to 50 percent in the second year, and finally 100 percent, or the full effect of the structure, in the third year. The caps will allow ample time for customers to embrace the structure and adjust service levels to mitigate unnecessary charges.

The draft filing explains the need for higher rates to address increased costs and lower than anticipated revenues, and also addresses the rate structure issues discussed above. The last rate adjustment was July 1, 2010, and in the three-year period prior to the

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requested rate adjustment, costs have increased with inflation and the expansion of diversion programs. The proposed rate adjustment is also intended to reset the rates to reflect a larger percentage of diversion services than was anticipated in the last rate, due to migration and the mandatory recycling ordinance. The Companies also seek to recover additional costs associated with City programs and services.

Recovering inflationary cost increases, providing new diversion programs and support for City programs, and resetting the rate structure to help recover some of the lost revenue due to migration to diversion services will require a revenue increase of approximately 23.75 percent from each customer segment (residential, apartment and commercial). Since each of the segments employ a slightly different structure, the exact increase will vary modestly. In addition, due to the fact that rates are dependent on volumes and service configuration, individual rate changes will vary. The Companies will endeavor to work with customers to increase diversion services, which in many cases will partially mitigate the rate increase. The residential increase for a typical household would be about \$6.50 per month.

The draft application follows the general rate-making methodology utilized in past rate processes. A thorough presentation of Company expenses, proposed program changes and impacts of the proposed new rate structures are included in the draft application. Company representatives will be available to explain the content of the application and answer all questions related to the submission.

The application presents Recology Sunset Scavenger and Recology Golden Gate as a single entity for rate setting purposes. This is consistent with the last rate order and with the reports the Companies have submitted since the completion of the last rate process.

The Companies have posted a new Web site specifically to make facts and information available to customers about the draft application to adjust monthly rates for refuse and recycling collection. By spending a few moments at www.SFZeroWasteRates.com, customers can quickly see what rate dollars pay for, rate comparisons to other Bay Area cities, and the factors requiring an application to increase collection rates.

We believe our draft filing to be complete in accordance with the Refuse Collection Disposal Initiative Ordinance of the City and County of San Francisco, the April 6, 2006 Directors Report, and the Department of Public Works Order No. 180,851 (Rules of Procedure: Refuse Collection and Disposal Rate Hearings”).

We look forward to further review and discussion of these matters and we are happy to respond to any questions you or your staff might have.

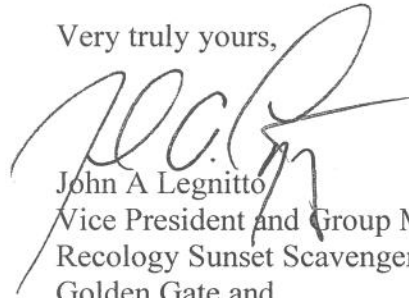
Please be advised that communications regarding this draft application and later applications, including notices of hearings, should be sent to the following persons:

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Very truly yours,



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