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DIRECTOR NURU: I'd like to call the hearing to order.

Good afternoon, everyone. I am Mohamed Nuru, Director of the Department of Public Works, City and County of San Francisco. This is a continuation of the Director's Hearing on Recology's application for an increase in residential refuse collection and disposal rates. Today is Monday, April 22nd. The agenda for today's meeting should be on the table. No? We are working on getting it.

MR. LEGG: We're getting copies.

DIRECTOR NURU: Okay. As in every hearing, we will reserve the last period for public comment. Speaker cards are available at the table and I will ask you to fill them out so that I have an indication on the number of people wishing to speak today. You may also convey your comments to the Ratepayer Advocate, Mr. Peter Deibler. I appreciate your patience as we wade through the details.

Once again, we have Mr. Freddie Reppond transcribing our meeting today. I want to remind everyone wishing to speak today to come forward and speak clearly into the microphone so that we can take
your entire testimony. Please don't speak from your seat to the audience.

Today's hearing will begin with a brief presentation by the companies on abandoned materials collection and city cans. And the Ratepayer Advocate will be conducting an examination of DPW staff on the impound account. After that, City staff will conduct cross-examination of the company's representatives on a number of topics which are listed on the agenda. The Ratepayer Advocate will also be given an opportunity to cross-examine company representatives as well as City staff. We have a lot of items to cover. And I will ask Mr. Legg to direct the proceedings and keep things in order.

Before we start, does the company have any additional comments it would like to make as a follow-up to last week's hearing or materials you'd like to enter into the record?

MR. BAKER: Good afternoon, Mr. Nuru. We have one housekeeping matter. Exhibit 11 has a typo on it. And so we have a revised Exhibit 11 that corrects it. If I might hand that forward.

The error was -- this was one of the charts that was used, as you may recall. And whereas the quantity for each of the bins should have been in one
place, it was mistakenly two, so we made it one again. So this would be the accurate one which I will now hand forward.

Other than that, we're ready to proceed on abandoned waste.

DIRECTOR NURU: Okay. And I'm assuming you'll be representing the company on the presentation?

MR. BAKER: My colleague Mr. White will. And our witnesses -- our witness on this subject will be Maurice Quillen.

DIRECTOR NURU: Okay. You may begin.

MR. BAKER: Where would you like the witness to sit today?

DPW CLERK: Please raise your right hand. Do you solemnly swear that the testimony you are about to give is the truth, to the best of your knowledge?

THE WITNESS: I do.

DPW CLERK: Thank you.

MAURICE QUILLEN, having been placed under oath, testified as follows:

DIRECT EXAMINATION

MR. WHITE: Good afternoon, Mr. Nuru.

Q. Mr. Quillen, would you please state your name for the record and spell it for the court reporter please.
A. Maurice Quillen. M-a-u-r-i-c-e Q-u-i-l-l-e-n.

MR. WHITE: Okay. I have an exhibit on abandoned waste that I will go ahead and hand around now.

MR. OWEN: We will mark the document as Exhibit 41 and receive it into evidence. The document is a single sheet with the title "Abandoned Materials Collection."

(The document referred to was marked for identification and received into evidence as Exhibit 41.)

BY MR. WHITE:

Q. Mr. Quillen, you're familiar with the abandoned materials collection program proposed in the rate application?

A. Yes, I am.

Q. Starting at a very broad level, what do you mean by "abandoned materials" in this context?

A. Abandoned materials are items that are left on or about city streets in San Francisco.

Q. Now, how would you distinguish these abandoned materials from just litter?

A. Abandoned materials would represent larger items -- couches, sofas, things of that sort. Litter would be paper, cans, bottles, cigarette butts -- smaller items.
Q. Okay. Now, at the broadest level, what is the proposal related to abandoned materials collection in this rate application?

A. At the request of the City, the company has proposed to assume a greater role in the collection of abandoned materials throughout the city of San Francisco. Most of the abandoned materials collection is currently performed by DPW at this point. DPW utilizes compactor trucks and Recology supports the DPW. It's our intention to play a greater role in the collection of abandoned waste. The collection of abandoned waste dovetails nicely into Recology's bulky item collection program.

Q. Okay. Let me just sneak in a question here and there and we'll proceed. So what is the difference between the abandoned waste program and bulky item collection program?

A. The bulky item collection program is an on-call program where our customers have the opportunity to call the collection company and schedule the collection of bulky item collection material. The abandoned waste collection would basically be the Recology trucks driving throughout San Francisco picking up material that's abandoned on the street and also fielding calls from 311 operators.
Q. Now, you mentioned driving the trucks. What is the additional equipment that Recology is putting into play for the abandoned materials program?

A. Recology is proposing putting in five rear-loader trucks and five cargo vans, breaking the city up into five geographic districts, and operating those trucks in those districts.

Q. Now, what are the goals of having Recology take this process over from the City? How is Recology going to be able to do it differently?

A. Well, currently Recology operates trucks throughout the city of San Francisco. We also operate bulky item collection, so we believe that there will be some synergies between bulky item collection, our standard collection operations, and the abandoned material collection.

Q. Do you expect to be able to achieve a higher level of diversion through this new program?

A. It's our intent to put out five rear-loaders and five cargo vans. The intention of putting the cargo vans would be to try to pull the recyclable materials out of the waste stream and get them into our operations so that we can process them and recycle them appropriately.

Q. Now, in the rate application narrative, it
discusses response-time goals. Could you say a word about those?

    A. Yeah. The company is committed to a four-hour weekday response goal and an eight-hour weekend response goal. Response goal would generally be during our normal collection operation of 7:30 in the morning to 4:30 in the afternoon.

    Q. Now, what are the assumptions that underlie putting together that time period? What facts -- let me back up.

    If anything changes, would you still be able to meet those response goals?

    A. Yeah. When the company looked at what type of resources we would have to employ in order to accomplish the collection of the abandoned materials, we identified the amount of tons that are currently being collected, a little over 3,000 tons per year. And we put an operational assumption out there for five trucks and five vans. In the event that those numbers were to increase significantly, we probably would not have the resources. But given that the historical averages have been about 3,000 tons, we believe that we've put enough vehicles there to handle it.

    We are looking at integrating this collection operation directly into the City's 311 call
center. And we would like all of the calls to come
from 311 so that we can track them as far as the time
the call was received, when it gets to the route, and
when we have closure on the ticket.

Q. So the goals wouldn't apply to calls that come
from other routes? The goal applies to the 311 calls?
A. The goal would generally apply to 311. While
we would probably take calls from other individuals, I
would think that we would apply the timing to the calls
that are tracked through the electronic system.

Q. Okay. And if there was a huge increase in
waste or a huge increase in telephone calls for whatever
reason, the goals might have to be adjusted or equipment
added?
A. If for some reason the calls were to go up
beyond what we're currently seeing or the tonnage would
increase significantly, we could potentially not have
adequate resources to deal with the material in the
four- or eight-hour window.

Q. Now, I'd direct your attention to the exhibit
I handed around. On the first page there's a narrative.
On the rear side there's cost information. Are you
familiar with that cost information?
A. Yes, I am.
Q. Are these numbers in the rate application?
A. Yes, they are.

Q. Have these numbers changed at all between the final rate application and this exhibit?

A. There's been a slight change in the numbers. The initial proposal is about $3.8 million; and we're at $3.6 million now. The reason for the differential is the change in the truck-leasing conventions. We used a mid-year lease for the current assumptions, whereas the other, initial application assumed the trucks being in there for a full year. There's also a slight reduction in some operational expenses associated with the compressed natural gas trucks.

Q. Okay. Is there anything else you'd like to add with regard to the abandoned materials collection program?

A. Not at this time.

MR. WHITE: Mr. Nuru, would you like us to move on to the public cans or would you like to do cross on abandoned waste first?

DIRECTOR NURU: Let's go with public cans and we can do cross on both of them.

MR. WHITE: Okay. Mr. Quillen is also going to testify about the public litter cans program.

Q. Mr. Quillen, at the broadest level what are the companies' proposals with respect to public litter
cans in the rate application?

A. The collection companies currently operate ten full-time City can routes throughout the city of San Francisco. We also have a half-time rover position that works in the transit corridors during commute hours. And we run a half-time equivalent rover for the holiday season and during the summer at various parts of town to deal with special events.

Q. Just backing up just a bit, we were talking about picking up the public cans that are owned by the City and placed in public areas; is that correct?

A. Correct.

Q. Now. The companies currently service those cans, correct?

A. Yes, we do.

Q. How is that servicing changing under the proposal?

A. Under the proposal we would be collecting the cans with higher frequency.

Q. Okay. In addition to collecting cans, is there anything related to maintenance of those cans that Recology is currently responsible for?

A. Recology is proposing to repair the locks, doors, and replace liners on the City cans.

Q. Is that something the company currently does
or is that a future program?

A. We've been doing it for the last two months, just replacing liners. Our proposal would be to look at replacing the doors and locks in the future.

Q. Now, have the companies had to hire any additional employees to do this?

A. No, we have not.

Q. Where do you get the materials for those repairs and replacements?

A. Currently, we are getting the materials directly from DPW.

Q. Now, the funding for this program is in the rate application; is that correct?

A. Correct.

Q. With respect to the rate application, were there assumptions about how many public cans there were in developing the rate application?

A. Our initial count show that there was about 3,800 public litter cans; and we were told by DPW that they believed the number was slightly under 3,000. So what he did was we took four of our employees and over a two-week period we audited the location of the City cans and we determined that there were 3,222 City cans out there, about 578-can difference from what our initial assumptions were.
To summarize that, 549 cans were not present in the locations where we believed that they were and 344 cans were found in new locations. So there's been quite a bit of movement with the city cans over the course of the last couple of years.

Q. So the cans have moved, but let me ask you about the money. How has this audit changed the numbers in terms of the cost of the program?

A. It really hasn't changed the cost of the program. The numbers that are currently out there are collected by our current complement of trucks and drivers so there would be no change.

Q. So the bottom-line cost to the ratepayer at the end of the day is the same?

A. It will be the same, correct.

Q. Got it. Do you have anything else to add about public cans?

A. Yeah. We also looked at enhancing the way we route the trucks. We're now utilizing the City's 311 system to track the trucks. It's very important now that we have the ability to have the general public call 311 and identify an overflowing city cans that we can dispatch our trucks directly to location rather quickly.

Q. I see. So if you get a 311 call a City can is overflowing, you can respond to it better?
A. Correct.

MR. WHITE: Got it.

I don't have any further questions at this time.

DIRECTOR NURU: Okay. Will the Ratepayer Advocate come up for cross-examination, Mr. Deibler?

MR. DEIBLER: Mr. Nuru, thank you. I have no questions at this time.

DIRECTOR NURU: Will the City come for cross-examination?

CROSS-EXAMINATION BY THE CITY

MR. LEGG: I have a few questions and I believe Robert Haley has a couple of questions after I speak.

Q. Maurice, with the abandoned materials collection program, you're going to be using two different trucks in each of the five zones -- a box truck and a packer truck; is that correct?

A. Yes, it is.

Q. As your patch unit dispatch unit is sending them information about where to go based on the calls that are coming into 311, are those trucks always going to be going in tandem or will they go to separate locations depending on information that you have?

A. I think it depends on the type of material
that the trucks are being dispatched to collect. We'll be putting them out in pairs. And whether they operate as a pair throughout the whole day will be difficult to determine at this time. If for some reason there's large items that one person can't get into the trucks, I could imagine that the second truck would assist. Likewise, the packer driver might assist the box-truck driver if there's a large item that they can't physically deal with.

Q. But at times they may actually be able to be operating independently geographically relatively nearby?

A. Correct.

Q. Okay. As Recology takes over this job of collecting abandoned materials, do you foresee any changes in the bulky item collection program? Or does Recology have ideas about ways to try to move more waste or material collection to bulky item collection?

A. At this point in time we don't have a plan to move the material to bulky item collection or to the abandoned waste collection. We've got tonnage assumptions for the abandoned material collection specific to the tons and trucks. The bulky item collection trucks currently operate given the complement or the number of calls that we receive on a daily basis.
Q. Do you think that, as you're actually providing the service though, that you may be able to with that experience figure out better ways to be keeping these kinds of materials off the streets or to be collecting them more efficiently?

A. Potentially, we could see some operational efficiencies. But at this point I can't determine what those operational efficiencies would be.

Q. Okay. Shifting to the public litter cans, when you did the cost estimates that are included in the rate application, it sounds like they were not based on the total number of City cans, as those costs did not change even though the number of City cans out there was lower than what you had estimated; is that correct?

A. Yes. The cost associated with the routes was geographically driven. The trucks are assigned a route and they drive the route and collect the cans. At a minimum every can is picked up once a day. Generally, that occurs in the residential parts of town. But when you start to move into the downtown transit corridor, Chinatown, Union Square, some of the cans are picked up five times a day. So it's not a question of how many cans they pick up; it's just how many cans are on the street that are full and what do they receive from the 331 dispatch center.
MR. LEGG: All right. Those are all the questions I have right now.

BY MR. HALEY:

Q. I just have one question. In the application narrative at page 8, paragraph 3, it says, "The companies currently operate 10.5 dedicated public litter can collection routes." And then in Recology Sunset Golden Gate Schedule C, page 2, paragraph 3, it says, "The companies currently operate ten dedicated public litter can routes." My understanding is the correct numbers are 10.5; is that correct?

A. Correct. 10.5.

DIRECTOR NURU: Okay. That concludes the cross-examination.

Mr. Deibler, would you like to ask questions of Mr. Legg now?

DOUGLAS LEGG,

having previously been sworn, testified as follows:

CROSS-EXAMINATION BY THE RATEPAYER ADVOCATE

BY MR. DEIBLER:

Q. Good afternoon.

A. Good afternoon.

Q. I have a few questions on abandoned materials and City litter cans and then a few more general questions.
On abandoned materials, how would you summarize how Recology's proposed costs to take over the abandoned materials program compare to our current costs to the department?

A. The full-time equivalents that both the City and Recology are proposing are roughly equivalent. We have not -- in the DPW expenses that we detail on the exhibit that I presented on the first day of these hearings, we do not include hours for supervision or administrative support as direct charges. And Recology is showing those as separate expenses.

Likewise, I don't think either one of us are showing the kind of marginal costs of dispatch which is part -- which would be part of both of our costs. But because there's dispatchers basically doing all kinds of things, which you have to have a radio room staff at all times, we haven't shown those.

The other significant difference between our costs those that the companies have proposed are they're including tip fee for tons that are collected; and DPW has not had to pay that tip fee directly to the companies when we have delivered those wastes, but they have been -- the costs have been accounted for in the entire system. So, even though DPW has not been writing a check for those disposal tons, they have been
accounted for in the system as a whole.

Recology's presentation, I believe, is a more transparent presentation of those costs to the Ratepayer than what we've actually been having to pay.

So those are the primary differences. And they show that Recology's costs are somewhat higher though. As I said, they've included a lot of costs that we have not. I think they're fairly comparable in terms of costs.

Q. Good. Thank you.

How does the proposal from Recology compare to expectations you might have had? Were you thinking they would be comparable or were you hoping for savings?

A. We asked to see what the costs would be and we provided Recology with performance standards that we expected them to meet. And so the performance standards that they are proposing to meet are actually much more stringent than those that the City has been able to meet over the last couple of years.

During the week, as you heard Mr. Quillen say, they are proposing collecting materials within either four or eight hours of receiving the call, depending on when the call comes in. We have a -- we at DPW do collect most of materials in those time frames, but our service level agreement, as we call
it -- our standard -- is actually to collect wastes within 48 hours of getting the call 90 percent of the time. We are not able to meet that standard. So we're only able to get things within 48 hours -- everything within 48 hours something like 85 percent of the time, which means that there's a lot of junk left out on street.

The model that the companies are proposing, I think, is going to be much more effective than our model. They're going to have many more trucks on the street. They testified that they're going to have twice the number of trucks on the street.

And, finally, this is really their core business -- collecting materials; and it's not a core business of DPW's.

Let me just say one more thing about why DPW has not able to meet its service standard and why the fact that Recology has a dedicated group of people is going to mean better service for people in San Francisco, I believe.

We often have difficulty meeting -- having enough drivers available on any given day. And so the same drivers that are driving these routes on our -- what we call our packer truck routes, the abandoned materials collection routes are often getting called
off and shifted to street-sweeping routes, where
they're going to be parking-control officers issuing
tickets. That's a higher priority for us, because
citizens in San Francisco really do not like to move
their car and find out that the street-sweeper never
came. Or, even worse, get a ticket for not moving
their car and the street-sweeper never came.

So we have a real challenge with our budget
and with the places that we get called off. So it's
not an ideal service for DPW to provide unless we have
a lot of extra money so we have more on-call drivers;
and we just don't have the budget for that.

Q. Thank you.

I have the same two questions for the litter
cans. Again, how do Recology's proposed costs for the
litter-can program -- again, it's not directly
comparable; they're going to be providing some other
services, I understand. But how do those compare to
your current costs?

A. Recology currently is responsible for
collecting the City cans; and so that's been part of the
rate base for many years. Through 311, we are seeing
much more use of those City cans. And I think Recology
would also agree that there are places where they're
being emptied much more frequently; and so their costs
for collecting have gone up.

Q. One comment. This may be more appropriate for the May hearing. But as you're looking at implementing a shift of some of those responsibilities, I think in Recology's presentation that they just made they indicated that there are some parameters where they're concerned about increased costs? Certain things happen, costs might go up.

So I assume that you would address that in the rate order in terms of how those increases might be measured in terms of cost and how they would be addressed.

More of a statement than a question, perhaps.

A. Yeah. We wouldn't be approving increased costs in the rate order; but we are contemplating, because they are proposing to meet certain standards, establishing some kind of performance standards that may include penalties if they are not able to meet the standards that they've proposed.

But I think we would have to have a mechanism that we agree to and that would be part of the rate order for how those standards would change based on increasing numbers of calls or significant changes in the amount of materials that are on the streets. So that's how we are going to have to deal
with that issue.

Q. Okay. Thank you.

If we could turn now to some more specific -- or I should say more general -- comments and questions about the impound account. I just want the make a quick statement, which is that you've heard a concern expressed over time and it's come up at various hearings -- this isn't the first one -- about programs and related costs being shifted from the general fund or other sources of monies to the residential rate base over time. Are there longer-term plans for reallocation of funding between the various sources of monies overall -- the cigarette tax, the general fund, the residential rate base -- moving forward.

A. There are no plans to move anything else into the rate base at this point.

I do -- I have a couple of comments about what is in the rate base, though. It's not just the residential rate base. It's the residential, apartment, and commercial rate base, because impound account dollars are collected from all of those segments that are parts of the rate base.

It is true that we believe that a larger percentage of our costs are potentially eligible to be paid for through the impound account, but as I said we
have no plans to increase the percentage that we're seeking from the rate base.

Mr. Deibler, at some point, I do have another exhibit that relates to this that I want to introduce. Maybe I'll do that at the end of your questions.

Q. Okay. As you make those -- maybe this has to do with your exhibit, I'm not sure -- but in Exhibit 14, which is the 2012 hearing report, there's a reference to allocating residential rate base share of expenses based on relative tons of overall material collected; and it's 47.5 percent or something like that of total tons of residential enhanced costs allocated in that manner. Would that continue to be the likely method?

A. My recollection is that it wasn't -- that we weren't doing the allocation based on tons. But I think that was the percentage that was coming from revenue from the residential sector. And we said that, to the best of our knowledge and based on our evaluation of where we are doing litter collection and where we are picking things up, that approximately represented land use and zoning in the city. And, as you can imagine, we can't trace every chewing gum wrapper or everything to find out which sector was responsible for that litter, but we did as best as we could. We were looking at the
types of materials that were being collected and delivered to the transfer station, the locations where we were doing that. And we felt that they were roughly equivalent to the residential, apartment, and commercial rate bases. And I don't anticipate that any of those things are going to change significantly in the years to come.

Q. So, for instance, Exhibit 17, where you did sort of a pretty detailed collection of data for the bulky item program, sort of showing support for the allocation of those costs, that you would do something similar in terms of looking at any future programs' acquiring a share of the residential rate base?

A. I believe that if we were to do any further programs, we would do this analysis -- this type of analysis, yes.

Q. Okay. And perhaps you answered this question, but let me just ask directly. Are there any plans in the works to shift any other programs to Recology at this point in time or over the next planning horizon?

A. I don't foresee anything else. As you know, we're trying to improve enforcement, compliance, education, and outreach. And that is kind of the last thing that we really feel like we need to be doing.

It's our desire that we don't have -- that neither the
City nor DPW has to be picking up the volumes of litter
and abandoned materials as we.

MR. DEIBLER: Thank you. That's all my
questions on this topic.

You mentioned you had an exhibit.

MR. LEGG: Oh, I just wanted to -- and this
relates to the questions that you were asking about
what's included in the rate base. And there was a study
that was done that I would like to introduce as an
exhibit. It's a report that was done for the San
Francisco Local Agency Formation Commission in 2001. And
it describes all the services that other cities in the
Bay Area include in their rate base, either through
payments to the City for services or services that are
provided by the collection companies -- things like
collection from City cans in the rate base. And this is
useful because it is another example to show these kinds
of services -- abandoned waste collection, enforce street
cleaning -- are all things that are commonly paid for by
Ratepayers in the Bay Area.


MR. OWEN: We will mark the document as
Exhibit 42 and receive it into evidence. The document is
approximately 22 sheets, bearing the title "Final Report
Phase Two of Study to Examine Practices for Selecting
Refuse Collection, Hauling, and Disposal Providers."

(The document referred to was marked for identification and received into evidence as Exhibit 42.)

MR. DEIBLER: Thank you very much. No further questions.

DIRECTOR NURU: Thank you.

Now, the City's cross-examination of the companies.

MR. BAKER: Do you have an extra copy of that last exhibit?

When you described it, I think you might have said it was 2001.

MR. LEGG: Yeah. And then I was told to correct it as 2011. Thanks.

Mr. Nuru, to the extent possible, we are going to follow the order of issues that are on the agenda today. And the first topic that we want to do that the City has questions about are head counts in our collection and sorting programs. And I believe Mr. Quillen and Mr. Crosetti are going to answer those questions; and I believe Mr. Drew and Mr. Dmitriew have questions.

DIRECTOR NURU: So the companies can take the stand. And, Mr. Drew, you may sit and ask questions.
MR. LEGG: Why don't we just have the company representatives stand where you are, Mr. Baker.

DIRECTOR NURU: Yeah. You do need to be sworn in.

So at this time I would ask that anybody that hasn't been sworn can be sworn in and then we can proceed.

DPW CLERK: Can you please raise your right hand?

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

MR. DREW: Yes.

DPW CLERK: Thank you.

DIRECTOR NURU: Would you state your name for the record, please.

MR. DREW: I'm Kevin Drew. I'm the residential and special projects zero waste coordinator for city of San Francisco.

DIRECTOR NURU: Thank you.

MAURICE QUILLEN, having previously been sworn, testified as follows:

CROSS-EXAMINATION

BY MR. DREW:

Q. And Mr. Quillen and Mr. Crosetti, I wanted to
ask some questions about Schedule G-1 from the
collection companies first on the head count and payroll
head count and expenses. Are you familiar with that
schedule?

A. Yes, I am.

Q. The total payroll head count for Recology
Sunset Scavenger and Golden Gate has ranged from about
584 to 594 for Rate Years 10, 11, 12, and 13, the last
four years, for an average of about 590 FTEs over that
period of time. The final application that we're
looking at proposes 623 FTEs for Rate Year 14, an
increase of 39 FTEs from where we were in Rate Year 12;
is this correct?

A. Yes, it is correct.

Q. And total tonnage collected over that period
and projected is relatively flat; is that right?

A. Yes, it is.

Q. Okay. Let me focus now on three specific
areas. In Fantastic 3, co-collection section of G-1,
page 6, Rate Year 14 shows an increase of about three
FTEs over Rate Year 13 that we're in; is that right?

A. Correct, it is.

Q. And the RSF Schedule E shows that Fantastic
3 tons again is essentially flat during this time
period; is that right?
A. Yes. I don't have that schedule in front of me.

Q. Yeah. It's in the RSF. Mike's got it, I think, there.

My question then is just then why the additional three FTEs would be required?

A. Currently the companies are working with the City on the compliance issues associated with mandatory recycling. There's about 5,000 customers out there who are noncompliant. And the company, in conjunction with the Department of Environment, are working on getting those customers into compliance. So we have put in three additional FTEs, or routes, to deal with the compliance issues associated with those 5,000 customers.

Currently, two of those routes are in ahead of schedule. And we will probably be putting the third route in, I would imagine, very soon. So our reality is that we are exceeding the assumptions in the rate application at this point.

Q. Is the compliance -- is that residential or commercial?

A. It's a combination of both. Generally, we don't have residential routes that are purely residential. So these would be the smaller customers and tend to be the mixed residential routes.
Q. Okay. Moving to page 10 on the same schedule, Schedule G-1, in general administrative, there's an increase of 5.8 regular payroll FTEs from Rate Year 12 to Rate Year 14 including a 3.3 FTE increase in the year that we're in, Rate Year 13; is this correct?

A. Yes, it is.

Q. And those additional 3.3 FTEs in Rate Year 13, have those positions been filled?

A. I'm probably not the best person to talk to general administrative issues. I can deal with the operational questions. So if you've got questions concerning the routes and head count associated with the routes, I can answer those questions. General admin questions would probably be directed to Mr. Braslaw.

Q. Okay. Then we'll save that, I guess, and ask Mr. Braslaw those. I have truck and garage questions next. Would that be more in your area?

A. Yeah, I can answer those questions.

Q. So we'll ask Mr. Braslaw to answer that section in a second here.

So moving to truck and garage, on page 11, the Schedule G-1 shows an 8.5 FTE increase from Rate Year 12 to Rate Year 14; and 6.6 of those occur in Rate Year 13, again, the year that we're in. Sort of the same question: Have those 6.6 FTEs been hired?
A. We're in the process of hiring. It's difficult to hire mechanics for a refuse-fleet operation. It's not quite the same as hiring mechanics for a general truck operation. In addition to being proficient in the drive train and brakes and suspension, you have to be proficient in the hydraulics. So hiring mechanics for refuse-fleet operations is quite challenging. We're currently looking at filling some of those positions.

Q. How many of those positions are mechanics?

A. Well, the positions are split between our cart department and mechanics. We've got 14 positions in the cart departments, about 12 currently. So two of the positions would be for the cart department. The remainder of the positions would be for mechanics.

Q. Yeah, I guess that was my next question is what are those positions and activities? So the 6.6 are split between carts and mechanics?

A. Correct, of which two would be for the cart department and the mechanics would be the remainder.

Q. Then of the 1.9 FTEs that you're going to hire in the next year, in Rate Year 14, what are those positions?

A. They'll be all mechanics.

Q. All mechanics. And can you just tell us a
little bit about the need for the mechanics. I understand it's difficult to hire them, but are you filling a backlog?

A. Yeah. We had some issues in 2010 and 2011 with retirements, so we were always chasing an optimal head count number and we're getting closer to that number. Currently in the rate application we're at 73.3; and that's the number that we're striving to attain.

Some of the issues associated with the increase in head count have to do with the PMs associated with our trucks. As fleets are getting larger and we've had some challenges with head counts, we're having to do the PMs on the trucks typically on overtime. And we want to make sure that we've got enough mechanics to do the preventive maintenance inspections.

In addition to that, we've also got some other issues associated with the carb equipment associated with the trucks. We don't have particulate traps on our whole fleet. And the particulate traps require additional maintenance, two to three hours' additional maintenance per truck. We've also got some increases in operational expenses associated with the fuel delivery, more specifically the compressed natural
gas and the liquid natural gas trucks. Generally, we look at what we have for industry standards as it relates to the head counts. Our piers are seeing 15- to 20-percent increases in head count as a result of the conversion from the diesel fleet to the LNG or CNG fleet.

One of the examples of this would represent changing spark plugs and having to adjust the valves. Currently, we have to do a tune-up, if you will, at every thousand-hour service interval; and that would include spark plugs and a valve adjustment. With the diesel trucks, we never had to experience that type of service interval before.

Q. Just that 15- to 20-percent increment, that is not just a one-time increment; that's an ongoing increment for mechanics?

A. It would be ongoing. And then we look at our current fleet. Our aspirations are to move to completely 100-percent CNG or LNG an alternatively fueled fleet.

MR. DREW: Okay. Thank you.

I guess can we go back to Mr. Braslaw for the questions on general administrative?

JON BRASLAW,

having previously been placed under oath, testified as
follows:

BY MR. DREW:

Q. Hello.

Regarding page 10 of schedule G-1, in general administrative there's an increase of 5.8 regular FTEs from Rate Year 12 to Rate Year 14; and 3.3 of those FTEs were in Rate Year 13, the year we are in; is this correct?

A. That's correct.

Q. And of those additional 3.3 in this year, have they been hired?

A. They have.

Q. And what are those positions and activities?

A. Those are -- two of the positions are zero waste positions. So we brought in a manager and staff person to help work on sustainability issues -- zero waste initiatives, pay per setout. That's Malika Thorne and Kristen Watkins, who works with the City. They participate in some of our zero waste planning work.

Q. What are the proposed positions and activities for the 2.5 additional that are coming on in Rate Year 14?

A. The 2.5 additional, actually one of those was also hired in '13 as kind of split between. She's involved in community outreach. She works for Paul
Giusti and works to address customer issues that come up through City staff and the Board of Supervisors. She also works with community groups and organizes community meetings and presentations and such.

The people that are coming on in Rate Year 14, one of them is an administrative position that we included in our proposal for the pay per set out program, that we assumed as we went through and implemented additional routes that we needed a full-time administrative person to essentially manage the paperwork to deal with customer issues specifically related to that program and to really keep track and do the recordkeeping that would allow us to use the data that we gather to make future decisions.

The other two positions are customer service reps. We anticipate that in 2014 and probably over the next few years we'll see an increase in the volume of inquiries and calls as we implement the new rate structures as we go out with our staff and get our customers used to the program. There are going to be more calls, more activity related to service changes to service audits -- things like that. So we've included two additional CSRs in that program.

MR. DREW: Okay. Thank you. That's it.

DIRECTOR NURU: That concludes your
cross-examination, Mr. Drew.

MR. LEGG: So then we have some questions
about head count at RSF. And that's going to be Alex
Dmitriew asking questions of Mr. Crosetti.

MR. DMITRIEW: I think I need to be sworn in.
DIRECTOR NURU: Yes, you do.
DPW CLERK: Please state your full name and
your position.

MR. DMITRIEW: Alex Dmitriew, commercial
recycling coordinator, City of San Francisco.

DPW CLERK: Please raise your right hand.
Do you solemnly swear that the testimony
you're about to give today is the truth, to the best of
your knowledge?

MR. DMITRIEW: I do.

DPW CLERK: Thank you.

MR. DMITRIEW: Want me to spell my name?
First name is A-l-e-x. The last name is Dmitriew,
D-m-i-t-r-i-e-w.

MICHAEL CROSETTI,
Having previously been placed under oath, testified as
follows:

DIRECT EXAMINATION

BY MR. DMITRIEW:

Q. Good afternoon, Mike.
A. Good afternoon.

Q. I just have a couple of questions on RSF.

In the draft application RSF, Schedule G-1, page 9, "Recycle central regular payroll FTE," there was an increase of four sorter material handlers from 63.5 to 67.5 from Rate Year 12 to 14; is that correct?

A. That's correct.

Q. Now, from Rate Year 12 to 14 do total tons processed at recycle central increase or decrease?

A. It decreased.

Q. So given declining tonnage and that none of the four sorters have been hired to date, I recommended that two sorters not be added in Rate Year 14. Did you agree with this recommendation?

A. Yes, I did.

Q. In the final application on RSF, Schedule G-1, page 8, "Recycle central total payroll," there was a reduction of two sorter material handlers in Rate Year 14 to 88 from 90 in the draft application, but no reduction in regular payroll FTE. Shouldn't this reduction also be reflected in the FTE table?

A. Yes, it should.

MR. DMITRIEW: I have no further questions.

DIRECTOR NURU: Okay. Thank you.

So we will begin -- go ahead.
MR. LEGG: So the next item on the agenda was trash processing and the East Bay MUD tip fee. I don't believe the City has any questions on this at this time. Do the companies have any other information that they want to place on the record?

MR. BAKER: No, we do not.

MR. LEGG: All right. Then next up are composting tip fees. I understand the companies have a representative here to present on those and also at least one exhibit.

MR. BAKER: Yes, we're ready. Our witness on this subject is Paul Yamamoto.

MR. LEGG: Mr. Yamamoto, why don't you come to the front of the room and we'll have you sit where Maurice was sitting.

MR. BAKER: All right.

DPW CLERK: Please state your name and your position.

THE WITNESS: Paul Yamamoto, vice-president of landfill and composting operations.

DPW CLERK: Please raise your right hand. Do you solemnly swear that the testimony you're about to give today is the truth, to the best of your knowledge?

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

MR. BAKER: We have an exhibit I'm going to pass up.

MR. OWEN: We will mark this document as Exhibit 43 and receive it into evidence. The document is two sheets with the title "Recology organics infrastructure and operations."

(The document referred to was marked for identification and received into evidence as Exhibit 43.)

PAUL YAMAMOTO,

Having been placed under oath, testified as follows:

DIRECT EXAMINATION

BY MR. BAKER:

Q. Good afternoon, Mr. Yamamoto. What is your job at Recology?

A. My responsibilities are to oversee the general operations, everything from finance to human resources to the ongoing operations of both landfill and composting operations for the corporation.

Q. And how many landfills are you responsible for?

A. We have three operating landfills that we own and operate and responsible for operating two under contract.
Q. And how many composting facilities are you responsible for?

A. We have seven operating compost facilities throughout the state of California and Oregon.

Q. How long have you worked for Recology?

A. Seven years.

Q. When did Recology get into the composting business?

A. Approximately 1995-1996.

Q. So that was before you joined the company?

A. Yes, it was.

Q. Do you know what prompted Recology to get into that business?

A. The City as well as Recology's intent on diverting organics from the landfill to eliminate the process of degradation and production of landfill gases -- greenhouse gases.

Q. Did you say "the City"?

A. Yes.

Q. Are you talking about San Francisco?

A. Yes, I am.

Q. All right. The document that is marked as --

What exhibit is that, Mr. Owen, again?

MR. OWEN: 43.

MR. BAKER: 43.
Q. Is this a summary of various issues relating to organics processing?

A. Yes. It's a high-level summary of our processes and the infrastructure.

Q. Did you prepare this with the assistance from others in your group?

A. Yes, I did.

Q. What materials -- well, first of all, San Francisco organics are sent to what facilities?

A. They're sent to three different facilities within our infrastructure. And that's Jepson Prairie Organics near Vacaville, the Grover Environmental Products operations near Modesto, and our South Valley organics facility near Gilroy.

Q. And how is it decided which facility to send San Francisco organics to?

A. It's a combination of things, but primarily the intent is to manage the concentration or ratio of food waste to available green waste for the process.

Q. Why is that important?

A. The combination of food waste with green waste is key for the whole composting process. Food waste in and of itself is extremely challenging to process and compost and in an efficient manner without green waste.

Q. Why is that? Why is food waste challenging?
A. It's higher-strength material. It takes a much longer time to process. It has lower porosity, so it does not -- air for the availability of microbes is not as effective or efficient as it is with green waste and other higher-porosity materials. It also produces a higher-strength leachate, so the liquids produced from the composting process also are challenging to manage in terms of their strength and the odor and the need to process those liquids.

Q. What is leachate?

A. Leachate is the liquid that is either produced or passes through the composting material; free liquids that can be collected at the surface of the operation.

Q. What is done with the end-product of the composting process?

A. The finished compost itself?

Q. Yes.

A. In our case we produce an organically listed material, so we can sell this finished compost to organically certified farmers. And we do that in the agricultural business throughout the Central Valley, Napa, Sonoma. But we also sell directly into landscape yards. In fact, I think we're one of the only producers of food-based waste compost that sells into retail landscape yards.
Q. How many jurisdictions send organics to your three composting facilities other than San Francisco?

A. Approximately a half dozen others. I would have to get a list to be exactly certain.

Q. Where does most of your food waste come from?

A. The City and County of San Francisco. It's an exceptional program, one-of-a-kind in the nation. So the volume and the concentration are like no other community.

Q. How does -- which corporate entity, by the way, operates the composting facilities?

A. Recology Environmental Solutions.

Q. So how is Recology Environmental Solutions paid for material that is delivered from San Francisco?

A. Through our sister company.

Q. And Recology Environmental charges a tip fee?

A. Correct.

Q. And that's based on tonnage?

A. On a per-ton basis, yes.

Q. And then the San Francisco collection companies pay that?

A. Correct.

Q. In order to process food waste has Recology had to make any capital improvements or other investments at its three composting facilities?
A. Yes. Quite a few improvements have been made to our operations, strictly -- almost exclusively related to the management of commercial food waste. Improved services in the way of concrete or asphalt, leachate collection drains that convey surface liquids underground to a leachate-treatment facility, bio-aeration, intensive aeration, then treatment in a polishing pond -- about a six-acre polishing pond -- specifically at our Jepson Prairie Organics site in Vacaville.

Q. Jepson Prairie?

A. We recirculate those liquids and reintroduce them back into the feedstock for moisture conditioning, so it's a closed loop.

Many other practices related to properly sizing the material. As I mentioned before, blending properly sized green waste with the food waste to ensure proper porosity. We do have -- we employ a state-of-the-art technology, the engineered compost system, to introduce air into the mass, into the material. So it's forced aeration via exhaust gases run through a bio-filtration system, all of this to make sure that we manage the process properly, control odors, control liquids, and produce a marketable material.
Q. And have you also developed best management practices for the different operations?

A. Yes, we have. It's as much an art as it is a science in terms of managing commercial food waste, probably no less than a couple of dozen operating practices that we've instituted, kind of learned through the college of hard knocks, so to speak.

So lime treatment of surfaces to control the pH. Food waste tends to be a more acidic material. That affects the maintenance on the equipment. We also place a bed of green waste underneath the food waste when we receive it so that it can absorb any liquids and also enhance the porosity of the material. We have enhanced contaminate removal. Even though the fraction of contaminants may be minimal in terms of weight, film plastic can be very significant in terms of compost quality; and it's extremely labor-intensive and capital-intensive to remove that material. So we have on-going litter picking. We have quite a system, a network of litter screens and sorters to manage that material and that contamination.

Q. What type of investment in dollars has Recology made in its composting facilities to improve them in the last few years?

A. Just within the past years at Jepson Prairie
approximately $4 million for leachate collection and

treatment, the forced aeration system, enhanced odor

mitigation measures, vector control in the way of

falconry, pheromone traps to minimize fly production and

so on.

At our Grover operation near Modesto we have

scheduled a $4.4 million project to essentially

implement many of the same things that we have done at

Jepson Prairie. And that is intended to conclude at

the end of this year.

Q. Is the terminology -- can you explain the
difference in your business between green waste on the

one hand and food waste on the other hand?

A. Certainly. Probably the simplest distinction

is that the commercial food waste would be something

that comes out of the back door of a restaurant -- food

scraps, post-consumer food waste. Green waste would be

those types of green materials produced from residential

yards or perhaps commercial landscape businesses.

Q. Is it more expensive to process food waste

than green waste?

A. Dramatically so, yes.

Q. And why is that?

A. For all the reasons that I've mentioned.

Pretty much all the additional precautions and
infrastructure, all the best management practices that we engage in were developed specifically to manage commercial food waste. Green waste, although not trivial in terms of the processes necessary to produce a quality product, do not compare whatsoever to challenges and the innovation needed to manage commercial food waste.

Q. With regard to the capital investments that you've described that have already been made at Jepson and are planned for Grover, would those capital expenditures have been required if you were only processing green waste?

A. Improved surfaces in the way of, perhaps, asphalt at this point. Pretty much all the other things that I mentioned are driven by the need to manage commercial food wastes in an environmentally sound manner.

Q. Are there other of your customers who deliver to you significant quantities of food waste?

A. There are other customers who do. We have a contract with Safeway that is pre-consumer food waste, so slightly different but also challenging in its nature and composition to process.

Q. Any other customers send significant quantities of food waste?
A. None like San Francisco. We do receive some commercial food waste from other customers. It tends to be blended in with green waste at a much smaller percentage. South Bayside Waste Management Authority is one customer who we do accept material from.

Q. Can you give us an estimate of the total tonnage that you handle a year in food waste from San Francisco, as opposed to Safeway, or a ratio?

A. Safeway delivers about 27,000 tons a year. San Francisco -- you're going to ask me to do math -- approximately 70 to 100 -- about 70,000, 75,000 tons a year.

MR. BAKER: I have some photos that I wanted you to describe to us. I guess our overhead is not working today; is that right?

DIRECTOR NURU: We don't have an overhead.

MR. BAKER: I have copies of them, but the audience won't be able to see them.

MR. OWEN: We'll mark the document as Exhibit 44 and receive it into evidence. The document consists of nine sheets with the title "SF Feedstock."

(The document referred to was marked for identification and received into evidence as Exhibit 44.)

/////
BY MR. BAKER:

Q. So, Mr. Yamamoto, we have nine photos here that we're going to walk through of feedstock from different of your customers. San Francisco is the one on top, but then there are other sources as we go through the photos. But can you just describe generally where these photos come from.

A. This is from our Grover operation near Modesto.

Q. Were these photos taken recently?

A. Yes, they were.

Q. Were they taken under your direction.

A. Yes.

Q. Did you take the photos yourself?

A. I did not.

Q. Okay. The pages are numbered, so if you could look at the first photo and tell us what that is.

A. I believe this is possibly a trailer from our San Francisco operations, the inside of a trailer.

Q. And what's the source of this material, as best you know?

A. Combination of commercial food waste primarily from -- it appears to be restaurants as well as possibly grocery stores. Not exactly certain. There also appears to be a fraction of green waste in here as well.
Q. What is Photo 2?

A. It's another example of commercial food waste vegetables and other post-consumer food waste.

Q. From what location?

A. San Francisco.

Q. So tell us what is notable about what we see in Pictures 1 and 2 as it relates to what we've been talking about?

A. Again, it's the predominance of commercial food waste as a fraction of total volume of material within those trailers. Again, San Francisco has an exceptional program, generates a significant volume of commercial food waste at a high percentage and ratio. The material that we're looking at, particularly in Slide 2, is vegetation, vegetables, some film plastic. I had mentioned earlier on that, though it was a very small fraction weight- or volume-wise, it is fairly labor-intensive to manage.

Q. You note that the film plastic, the plastic bags in Photo 2 in particular, what steps do you have to employ in order to deal with that material?

A. It's combination of processes. We -- the material can be ground or shredded to open the bags. Then it's run through a trommel or a screen to make sure that the organic fraction drops out or a portion of the
organic fraction drops out. And the overs, the larger material, is run across a sort line where we have anywhere from four to eight sorters picking the noncompostables and plastics -- the film plastics -- and the other things out of the feedstock.

Q. And that's done manually by people who are doing this -- sorters?
A. That's done manually. Toward the middle and the end of the process we have airlift separation, a series of airlift separators, that use the difference and the density of the material. The film plastic tends to be much lighter, has much greater surface area. So it can be drawn off under a vacuum, essentially.

Q. Photos 3 and 4, what do they show?
A. This is the Safeway feedstock, so a higher ratio of cardboard. But still within those containers is generally food waste from the retail outlets.

Q. What about Photo 5? What does that show?
A. That's another photo of Safeway.
Q. No, 5. Look at the bottom left-hand corner, the numbers.
A. SBWMA, so South Bayside Waste Management Authority.

Q. What region is that?
A. San Mateo County, in general.
Q. Do you get much food waste from those customers?

A. We don't receive a high percentage of food waste. There is some contained within this material through residential programs by comparison not much. And what I mean by that is by comparison to San Francisco.

Q. And Photo 6 is also the SBWMA?

A. That is correct.

Q. So what is notable in terms of what we've been talking about Photos 5 and 6?

A. Predominantly green waste, which is actually helpful to the process.

Q. Helpful in what regard?

A. Again, porosity management through the equipment that we use to receive the material and screen and grind.

Q. Is the material that is predominantly green waste as we see in Photos 5 and 6 -- is that easier and less expensive to process?

A. Yes, it is.

Q. Okay. What about Photo 7? What does that show?

A. That's green waste from Waste Management. Actually, it's residential food waste and green waste.
But it has the least amount of food waste of any of the feedstocks that we receive from any customer.

Q. Where does that material come from?
A. Alameda County.

Q. Then we have Photo 8 is Berkeley; is that right?
A. Yes.

Q. Again what's the typical composition of the Berkeley feedstock?
A. It's primarily green waste.

Q. And what is notable about this photo, Photo 8?
A. Yes.

Q. Then Photo 9, what does that show?
A. The City of Livermore. We have a contract with the City of Livermore as well.

Q. Do you get much food waste from Livermore?
A. No. That's a residential program predominantly and primarily as well.

Q. What is the tip fee that Recology Environmental charges the San Francisco collection companies for material from the green cans?
A. I believe the current rate is $49.18 a ton.

Q. What about Safeway? What is Safeway charged?
A. Slightly above that. $49.88.

Q. What about the SBWMA? How are they charged?
A. I believe their rate is 46.55 per ton, so slightly less.

Q. And is that a charge for food waste or for green waste?

A. That's a charge for residential organics mixed with food waste.

Q. Okay. Do you get much food waste at all from the SBWMA?

A. We do receive some periodically. But, again, the majority of material that we receive is green waste that has residential food scraps in it.

Q. Does the SBWMA send commercial food waste to another location?

A. They do. At this point the majority if not all of that material is sent to a competitor's site. And unless that competitor has some challenges, we do not receive that material.

Q. When did Recology acquire the Grover site?

A. Early 2010.

Q. Does the SBWMA material mostly go to Grover?

A. Again, it is split. So I would think that a slightly higher volume of material ends up at our Grover operation because it's mainly green waste.

Q. Was the Grover contract bid and obtained by Recology or by a predecessor company?
A. The management from the company that we purchased the operation from submitted that, so it was a non-Recology bid response.

Q. What company was that?
A. Grover Landscape Services.

Q. Was that the company you bought the Grover facility from?
A. That's correct.

Q. So the $46.55-per-ton figure, which is about two and a half bucks less than Recology charges to San Francisco companies, that was bid by another company?
A. Correct.

Q. Did Recology bid on that contract to get food waste from SBWMA?
A. We did, into our Jepson Prairie site near Vacaville.

Q. And was Recology's bid higher or low than the one that was accepted from Grover?
A. It was higher.

Q. So Recology didn't get that bid?
A. Correct.

Q. So Recology has a Grover contract only because they bought the Grover facility?
A. That is correct.

Q. Or the SBWMA contract.
Why did Recology bid more than the winning bid?

A. Perhaps maybe a better question would be, Why did Grover bid less?

Q. I'll accept that one.

A. They had never received commercial food waste before.

I take that back. They did at one time receive Safeway and because of the contamination they rejected it. But they did not have the level of experience that Recology has in processing commercial organics.

Q. So when Recology put together it's bid for SBWMA, did Recology assume that some improvements would have to be made in its facilities in order to accept the food waste from SBWMA?

A. Our intent was to leverage the existing facility as best as possible. But because of the volume we would have had a need to expand the existing facilities that accommodated commercial food wastes. Yes.

Q. And I think you mentioned that there are now improvements being made at Grover that are planned in the near future; is that right?

A. That is correct.
Q. And are those improvements to provide facilities appropriate for food waste?

A. That is correct.

Q. And to bring it up to the Jepson Prairie standard. Is that a fair way to put it?

A. Two different processes, but the very same challenges.

Q. Have I left anything out?

A. I think you've covered things fairly well.

MR. BAKER: All right. We have one other item. I understand that the City would like to reserve cross-examination for Mr. Yamamoto till Wednesday?

MR. LEGG: Yeah, I have a couple of clarifying questions. But we would like to have Mr. Yamamoto come back on Wednesday.

And I understand that the Ratepayer Advocate has some questions that I think he's ready with today.

MR. BAKER: All right. Let me put another document into evidence that you can utilize. This is a report that was prepared by a company called Integrated Waste Management Consulting -- Bay Area composting operations and comparing them. A draft of this report, I think, was provided to the City earlier. There have been some changes made in it since then. So this is the current version. So I'll offer that up and we can mark
that as Exhibit 45.

MR. LEGG: Mr. Baker, can I ask, if the City has questions about this report, will Mr. Yamamoto be responding to those also?

MR. BAKER: About the Integrated Waste Management report?

MR. LEGG: Yes.

MR. BAKER: He may, but I think we may have others as well. Either Mr. Glaub or Mr. Braslaw may as well.

MR. OWEN: This document will be Exhibit 45 in evidence. The document is six sheets with the title "Food Scraps Capacity in the Bay Area 2013 Benchmark Data."

(The document referred to was marked for identification and marked into evidence as Exhibit 45.)

MR. BAKER: So I have no further questions of Mr. Yamamoto.

DIRECTOR NURU: Okay.

CROSS-EXAMINATION BY THE CITY

MR. LEGG: I have a couple of questions that I'd like to ask today and I may be that Mr. Yamamoto needs to provide some other information back on Wednesday.
Q. You said that there were about a half-dozen other jurisdiction that use Grover and Jepson Prairie?
A. Yes.

Q. If it's possible, we'd like to see that list; and also what the tip fees are that are charged to all of those public jurisdictions.
A. Understood.

Q. If I wanted to know -- and I may have missed it -- but what percentage of San Francisco's food waste currently goes do Grover versus going to Jepson Prairie?
A. In terms of a percentage, I would have to say about 75 percent. And that's an approximation. I can get a more accurate number if that would be needed.

Q. That would be helpful to me. And that would be 75 percent going to which facility?
A. To Grover.

Q. Okay. That's despite the fact that all these improvements haven't yet been implemented at Grover? You are able to handle all of that food? That's what's confusing to me a little bit. It sounds like you're about to make a lot of investments, but there's a lot of food waste that's being processed already at Grover.
A. We ran into some challenges at our Hay Road operation because of the volume of commercial food wastes that the City produces. Again, the success of
the program. So to make sure that we had a proper ratio of food wastes to green waste, we diverted more of the commercial food waste to our Grover operations. The key there is that Grover had a large percentage, or a large volume, of green waste. All of that green waste is now blended with commercial food wastes at that operation. That was a good first step, but we're not done. So we have to make an additional 4.4 million in improvements to make sure it's properly managed.

Q. In our public workshops we had a number of questions about the fact that Recology receives from selling it's high-quality compost products. And is there a difference between prices that you are able to charge for material that's processed at Jepson Prairie versus Grover? Can you describe if there's a difference or are the prices essentially equivalent at this point?

A. The bigger distinction is between pure green waste compost, dry compost, and commercial food-waste-derived compost. These are just ranges, but a pristine green waste compost could sell for anywhere between $10 to $15 per cubic yard. Commercial food-waste-based compost can sell anywhere from $2 to $10 at the most, per cubic yard.

Q. So the food waste actually results in a less valuable product?
A. In the marketplace, correct.

MR. LEGG: Okay. I may have more questions. And I know Department of Environment will have questions on Wednesday for you.

But, Mr. Deibler, are you ready? Great.

CROSS-EXAMINATION BY THE RATEPAYER ADVOCATE

MR. DEIBLER: Thank you. I have a few questions. Thank you, Mr. Yamamoto.

Q. First of all, you mentioned pretty significant investments into the facilities over recent years to meet a variety of needs related to organics. What share of those investments has been paid by San Francisco Ratepayers? Do you have an estimate?

A. I don't have that available, but I could provide that at a later time.

Q. Okay. Thank you. Following up on -- Douglas just asked a little bit about products. Several questions on that.

You develop and generate and sell a range of products. And are those sold at different prices per cubic yard?

A. Yes.

Q. What is a general number -- is there one -- for revenue per ton in terms of off-setting costs and the tip fee for sale of materials?
A. I can tell that you the percent of revenue produced by compost sales is about 10 percent of total revenue that we receive. Does that answer your question?

Q. Total revenue relative to the tip fee?
A. Total gross revenue.

Q. Four dollars per ton? Is that what you're saying, ballpark?
A. Again, I'm going to have to do some math in my head. So if you'll bear with me, I may be able to come up with an approximation.

Q. That's okay. If you are going to be back on Wednesday, maybe you can think about it for then. Does the mix of materials change over time -- or the products, I should say, that you sell? You have a range of products. You're selling different amounts of them at different times?

A. The largest volume of material that we sell is into the agricultural business. It's bulk sales, so that's pure compost. There are other materials that we do sell periodically based on the market demand, the needs of customers. But predominantly bulk sales into the agricultural industry.

Q. Thank you. Is that a fairly static component of sales, a large portion going to agriculture in bulk?
A. It's a large percentage. And I wouldn't say that it's static. But, relatively speaking, in terms of an order of magnitude, it's probably somewhat constant.

Q. Okay. Well, you mentioned Wednesday you'll tell us what sort of an average dollar per ton is on the revenue side for sale of materials. From the point of view of the rate process --

A. Oh, I'm sorry. On a per-ton basis, it could be -- per ton of material of finished compost, it could be on the order of maybe $20 per ton, possibly $15 per ton, if you're talking about sale of finished compost on a per-ton basis.

Q. Okay. Thank you.

And I guess there's moisture loss -- and I don't want to get into the details here -- but if you, for Wednesday, could sort of equate that back to how that relates to the incoming -- the tip fee that's paid? I don't think it's a one-to-one.

A. Sure. It is not.

Q. Thank you.

What happens if actual revenues are lower than whatever that number is for -- going to be here on Wednesday. Does the City's relative net tip fee increase? If the sale of products generate a certain revenue, but that revenue may vary over time?
A. Well, the rates that we charge our collection companies is set for the year and reevaluated at the beginning of every year.

Q. Annually. So do the Ratepayers either pay more if that revenue goes down or, correspondingly, do they benefit if sales had gone up and more than offset costs?

A. That is incorporated into the evaluation of our rates to our collection companies.

Q. Okay. Thank you.

I have a few questions on anaerobic digestion. I don't know if you're the right person to ask. It's with relation to composting in particular. I was asked to ask several questions and you can tell me if this is the wrong time to ask them.

But food waste generates volatile organic compounds, VOCs, that are climate-change gases?

A. Correct.

Q. Is it true that they generate more of those than green waste?

A. Food waste?

Q. Would it be accurate that food waste generates more?

A. Yes, it does.

Q. Uh-huh. And would anaerobic digestion in
front of composting -- would that be a way to capture and reduce those VOCs?

A. Well, actually, anaerobic digestion enhances the production of methane gases and VOCs. Composting minimizes that. But, overall, anaerobic digestion with the intent of capturing methane would probably capture a significant portion of the gases. But as I mentioned before, we do have bio-filtration at our compost facilities, so we are capturing and destroying volatile organic compounds.

Q. When you say "destroying," are you --

A. It's a biological process.

Q. Biological. Okay.

I also want to ask one question about the East Bay MUD, if I could, just for a moment. The East Bay MUD pilot program. And I'm not extremely familiar with this. But could you tell us, just for a minute, a little bit about that program? And, again, I'm not sure you're the right person. I hope you are.

A. I've been involved a bit. So at a high level I can describe the process for you.

We received some select loads of commercial food waste at our Jepson Prairie site. Because we have the equipment there. We're capable of processing that material -- essentially pulverizing it into what we
called manufactured bio-mass -- and then delivering
that at a point in the system that East Bay MUD, where
they take that material, run it through excess digester
capacity to produce methane, and from that methane they
produce electricity.

Q. And that's at a pilot scale; is that correct?
A. It is. The difference between a commercial
scale and a pilot scale is kind of vague, but it's a
smaller operation.

Q. Do you have plans or does the company have
plans to increase its size or hope to do that?
A. There are currently plans right now to work
more closely with East Bay MUD; and that would include
an increase in volumes.

Q. Okay. And do you know offhand what the tip
fee is for that -- I was trying to find it in the forms
and I was having a little trouble.

A. That actually I do not have off the top of my
head. In fact, maybe it is still part of the
discussions with East Bay MUD.

MR. DEIBLER: Okay. Maybe someone else knows
the number.

Thank you very much. Thank you, Mr. Yamamoto.

DIRECTOR NURU: Thank you. I think we should
probably take a 15-minute break and reconvene at 3:00
o'clock, if that works for everyone. Thank you.

(Break from 2:43 to 3:03 p.m.)

DIRECTOR NURU: Okay. We should resume. I
know we have quite a bit of areas to cover.

Mr. Legg, could you indicate the topics you
would like to take up next.

MR. LEGG: Sure. The companies have some
presentation. And we may or may not have questions about
workers' compensation expenses and liability insurance.

The City does have some questions -- I'm just
going to give a quick preview of how we're dealing with
this two-day agenda over the rest of today and
Wednesday. We do have questions about sustainability
that we'd like to ask today. And then the companies
will have some presentation on revenue projections. And
then we'll hold, based on giving us a little bit of time
to review those materials, we'll have some questions
about that, the revenue projections and the rest of
what's on the agenda on Wednesday, as well as circling
back to the compost programs.

So I anticipate that we'll actually finish a
little bit early today and be able to take public
comment before 4:30. But that's the plan.

So if the companies are ready on workers'
compensation and liability insurance, we're ready.
MR. BAKER: All right. We're ready to proceed on that. We have two witnesses on that on those two issues. It would probably make sense for both of them to come up at the same time. So maybe Mr. Haley could briefly migrate over to the other side and we would have two seats right there.

It will be Aaron Newhoff and Adam Tabak.

DPW CLERK: Please state your name and your position.


DPW CLERK: Please raise your right hand.

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

MR. NEWHOFF: Yes.

DPW CLERK: Thank you.

AARON NEWHOFF, having been placed under oath, and

ADAM TABAK, having previously been placed under oath, both testified as follows:

/////
DIRECT EXAMINATION

MR. BAKER: Mr. Newhoff, tell us a little bit about what you do and where you work.

MR. NEWHOFF: I work for an insurance brokerage and risk management consultant company called Beecher Carlson. We have been working with Recology for the past several years in working on their workers' compensation program. I in the actuarial unit, look at their loss experience over time; and based on that loss experience, tend to make forecasts for what future loss emergence will look like in their workers' compensation program.

MR. BAKER: What is your training?

MR. NEWHOFF: I'm a fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

MR. BAKER: Okay. You might have to slow down just a little so the court reporter gets everything that you say.

Mr. Tabak has been here before. And, again, just to remind everyone, what is your position?

MR. TABAK: I'm Recology's corporate controller.

MR. BAKER: So let me start with you, Mr. Tabak. How does workers' compensation expense fit
into this application?

MR. TABAK: The workers' compensation expenses included on Schedule D and G-4.

MR. BAKER: So Schedule D is a schedule of expenses?

MR. TABAK: Yes.

MR. BAKER: And workers' compensation is a line item on that schedule?

MR. TABAK: Yes.

MR. BAKER: And for Rate Year 13, for example, what's the expense for workers' compensation?

MR. TABAK: 5,830,596.

MR. BAKER: So Rate Year 13 takes us through June 30 of 2013; is that right?

MR. TABAK: Right.

MR. BAKER: And then there's also a number that's for Rate Year 2014, the rate year that we're seeking a rate increase, correct?

MR. TABAK: Right, yes.

MR. BAKER: And what's that number?

MR. TABAK: 6,247,068.

MR. BAKER: Let's look at Rate Year 13, the year that we're currently in. How was that number calculated, as a general matter, just as a broad methodology?
And if I should be asking Mr. Newhoff this question instead of you, turn his way, please.

MR. TABAK: Okay. Well, I can just start with the big picture, which is that we estimated the cost for 2013. We broke it out into a couple of different component, being the claims; our excess premium -- we're self-insured up to a million dollars in pay premiums in excess of a million; and reserves and professional services. The largest component of that was the claim costs and the reserves where we did rely on actuarial estimates.

MR. BAKER: And you said that more detail is provided on this subject on Schedule G-4?

MR. TABAK: Yes.

MR. BAKER: You mentioned self-insured. Can you explain what that means in this context?

MR. TABAK: Right. So the company pays for claims out of pocket up to a million dollars. Claims in excess of a million dollars we're fully insured for, which means that we have a third party that insures those costs.

MR. BAKER: So you pay premiums for the insurance -- the third party insurance portion of it; is that right?

MR. TABAK: Yes.
MR. BAKER: And so the premiums, am I correct, that you get a bill from the insurance company and you pay the bill, so it's pretty easy to calculate what that cost is?

MR. TABAK: Yes.

MR. BAKER: How do you calculate the self-insured portion up to the million dollars per claim?

MR. TABAK: The self-insured portion is more difficult to calculate, which is why we turn to experts who are able to do that for a living.

MR. BAKER: So, Mr. Newhoff, that seems to be your cue. What do you do to assist the company in calculating the expense that it needs to include in its rate application for workers' compensation?

MR. NEWHOFF: We collect historical loss information from Recology so these payments that Adam mentioned, we look at the entire history over several years, over approximately a decade. Based on the information contained in these loss runs that are provided to us by Recology, we make forecasts based on the historic development patterns. We try to anticipate what the future payments will look like. Based on those future payments, we then spread that out over periods of time -- in this case the forecasted policy years. And that's the payment information we provide to Adam.
MR. BAKER: If someone, let's say, was injured in Year 2005 and made a claim under workers' compensation, is it possible that the payments required for that claim might show up in Rate Year 13 or 14?

MR. NEWHOFF: Absolutely. Workers' compensation is what we refer to as a long-tailed line of business.

MR. BAKER: It's referred to as what?

MR. NEWHOFF: Long-tailed.

MR. BAKER: Long-tailed?

MR. NEWHOFF: Yes. It can run over several years -- decades, actually.

So once an injury occurs, all the costs associated with compensating that employee are associated back with the 2005 year in your example, but then those payments can come over the course of several years. So there could be additional medical payment, if there was a future surgery that was required, if this person is out of work for an expended period of time, the compensation that they're getting for their lack of wages is paid out over several years. So, yeah, all those payments can take place over a fairly long period of time.

MR. BAKER: And am I correct that what you're trying to calculate are the estimated paid losses and
reserves for the period of time that you're focused on, in this case, Rate Year 13?

MR. NEWHOFF: That's correct. All the payments that will be made on all the claims that have occurred throughout history, as well as the changes in reserves. So if, for example, the information that we're provided shows not only the payments that are made, but also a claims administrator's estimate of what those future payments will be, so if they say, "Okay, we expect that maybe this particular employee might need a surgery in the future," that's part of the calculation as well.

MR. BAKER: I haven't handed up an exhibit for this witness, have I, Mr. Owen? Okay.

MR. OWEN: We will mark the document as Exhibit 46. The document consists of two sheets. And it is a memo to Bill Lyons from Aaron Newhoff, dated February 25, 2013, "Subject: Recology Allocation and Trends."

(The document referred to was marked for identification and admitted into evidence as Exhibit 46.)

MR. BAKER: You said it was 47?

MR. OWEN: 46.

MR. BAKER: Mr. Newhoff, can you tell us what Exhibit 46 is, please?
MR. NEWHOFF: 46 is an outline of the process that we go through to come up with the numbers that we were describing a minute ago. So the payments that we expect in the future year, as well as the changes in reserves.

And then there's an additional portion of that process. When we look at Recology, we look at it in total. So we look at the company in aggregate. It provides us with kind of law of large numbers, a credible database from which to make projections. Once that overall projection has been made, we then allocate it to the various entities within Recology. In this case we're talking about the San Francisco entities. So once we've come up with the overall size of the pie, we figure out how to segment the pieces of the pie. And this memo is referring to both parts of that process.

MR. BAKER: Before we get to the allocations, what data do you obtain -- or what data do you rely on in order to make your projections?

MR. NEWHOFF: We obtain loss runs from Recology, which contain --

MR. BAKER: Obtain what?

MR. NEWHOFF: Loss runs from Recology, which contain both the paid and incurred loss information for all of their claims throughout history. It also tells us
the number of open and closed claims. And then we also, in addition to the loss information, we relate that to an exposure base, which in the case of workers' compensation, the exposure base is typically payroll.

MR. BAKER: And do you have data from Recology going back many years to assist this?

MR. NEWHOFF: Yes, we do.

MR. BAKER: How many years did you say your company has been doing this?

MR. NEWHOFF: We've been working with Recology for, I think, three or four years now, but we receive data going back much further than that.

MR. BAKER: And do you rely on any data from the industry, that is data from other than Recology itself?

MR. NEWHOFF: Yes, we do. The data that we receive from Recology is quite voluminous. There's a lot of credibility to it, but in instances where we're looking at pieces that are smaller, we try to supplement that with industry information. In this case, it's workers' compensation industry information promulgated by the California Rating Bureau.

MR. BAKER: By the what?

MR. NEWHOFF: By the California Rating Bureau, known as the WCIRB.
MR. BAKER: Is that a state agency?

MR. NEWHOFF: Yes, it is.

MR. BAKER: Does any part of Exhibit 46 show how you calculated the allocation to the San Francisco collection companies, as opposed to the entire company?

MR. NEWHOFF: The details of the allocation are not shown here, but the results of the allocation are shown here, that very last page.

MR. BAKER: The very last page?

MR. NEWHOFF: Yes.

MR. BAKER: And can you just walk us through what that number is for 2013?

By the way, that 2013 -- is that Rate Year 2013?

MR. NEWHOFF: That actually is Policy Year 2013. Adam's group did some interpolation of the information we gave, because the rate year and policy year don't mesh exactly, so they're about three months off. So there was an interpolation to get to the exact number.

MR. BAKER: So the number that appears on the last page of Exhibit 46 is for the policy year?

MR. NEWHOFF: Right.

MR. BAKER: And the policy years runs from when to when?
MR. NEWHOFF: From 10/1 to 10/1.

MR. BAKER: October 1 to October 1?

MR. NEWHOFF: Yes.

MR. BAKER: So you say there were some adjustments made so that those numbers correlated to the rate year for San Francisco rate-making; is that right?

MR. NEWHOFF: Yes.

MR. BAKER: What was the total for Policy Year 2013? And how much of that was allocated to the San Francisco collection companies for that year?

MR. NEWHOFF: The total was approximately $14 million. The portion allocated to San Francisco collect was approximately 6.2 million. That allocation process was based on their actual loss shift and also their exposure as well their payroll.

MR. BAKER: When you say "their exposure, their payroll," what do you mean by that?

MR. NEWHOFF: The amount of money that they paid to their employees. There was some adjustment -- again, talking about the WCIRB, there was some adjustment made to that based on what type of work the employees did. So in other words, you wouldn't want to put a collections worker on the same basis as, say, a clerical workers'. So there was an adjustment made to the payroll to account for that.
MR. BAKER: And from your analysis, how does the workers' compensation experience for workers for collection companies compare to the other operations that Recology has?

MR. NEWHOFF: It's pretty scary. You get some big numbers there.

MR. BAKER: What do you mean by that?

MR. NEWHOFF: Well, we actually look at -- in terms of San Francisco collections, their exposure -- first of all, back up a second. The rate for collections is relatively high, relative to other classes of employment. In the case of San Francisco collections, even after we adjusted for that difference in payroll -- the payroll coming from collections -- we saw that approximately -- that San Francisco collections represented approximately 20 percent of the payroll, the adjusted payroll; but it actually represented approximately 37 percent of the loss history, the losses. So they were paying a lot more than their share of losses.

MR. BAKER: And did your company perform any sort of analysis as to why the collection companies bore a disproportionate portion of the workers' comp burden?

MR. NEWHOFF: That's really more of a "why" question, which is typically not within the actuarial
purview. So, no, we just -- we aggregated the data, did
our analysis on it. But in terms of the nuts and bolts
as to the "why's," no, we did not.

MR. BAKER: If I could turn back to Mr. Tabak
for a minute. How did you convert the policy year
numbers that were provided to you by Mr. Newhoff and his
firm into rate year numbers for the application?

MR. TABAK: So we prorated it using nine
months of the 2013 policy year and three months of the
2012 policy year.

MR. BAKER: I can move now to the direct on
liability insurance and then complete that and then turn
it over to cross.

DIRECTOR NURU: That's fine with us.

MR. BAKER: All right. So on liability
insurance, Mr. Tabak, where does that appear on the
application?

MR. TABAK: Schedule D again and Schedule I.

MR. BAKER: Schedule D, again, is the schedule
of expenses?

MR. TABAK: Correct.

MR. BAKER: And is there a line item for
liability insurance?

MR. TABAK: Yes, there is.

MR. BAKER: And that's kind of in the middle
of the page, isn't it?

MR. TABAK: Yes.

MR. BAKER: And then Schedule I has some
detail?

MR. TABAK: Yes.

MR. BAKER: How was the number for liability
insurance arrived at? Well, first of all, what does that
represent? When it says "liability insurance," what
types of insurance are covered by that category?

MR. TABAK: The coverage would include auto
and general liability risks up to 500,000. We're
self-insured for that portion. In excess of the 500,000,
we have, again, the excess insurance. So it's fully
insured, premium based. The overall cost also includes
other types of insurance, such as DNO, environmental,
IT-types of insurance, which are -- those are fully
insured as well. In addition, it would include the
overall costs to run the program.

MR. BAKER: Is it correct to say it includes
all insurance other than health insurance?

MR. TABAK: Health insurance and workers'
comp, that would be correct.

MR. BAKER: And how did you -- and that's for
the entire Recology company, not just the collection
companies and RSF, but all operations; is that right?
MR. TABAK: That's correct.

MR. BAKER: So how did you allocate the portion attributable to RSF and the collection companies for purposes of this application?

MR. TABAK: We allocated the amounts to the San Francisco companies based on a number of factors, including head count, number of facilities, claims history, and property values -- insured values.

MR. BAKER: Did you have any outside consultants assist you?

MR. TABAK: Yes, we did. We relied on Bickmore Risk Services for the actuarial estimates and expected future paid claims.

MR. BAKER: What's the name of that company again?

MR. TABAK: Bickmore.

MR. BAKER: And what did they do for you?

MR. TABAK: They projected the 2013 claim payments and reserves.

MR. BAKER: Did you share the consultant's work with the City and the City's consultants?

MR. TABAK: Yes, we did.

MR. BAKER: Who at the City in particular did you share with?

MR. TABAK: With William Schoen.
MR. BAKER: Okay. And William Schoen is an outside consultant hired by the City for this rate application so far as you know?

MR. TABAK: Yes.

MR. BAKER: All right. And did he have some questions for you that you passed onto the Bickmore firm?

MR. TABAK: Yes.

MR. BAKER: What in particular was his question?

MR. TABAK: One of his questions was how Recology's experience relates to the -- how the industry ties to Recology's experience.

MR. BAKER: And what did you understand that to mean?

MR. TABAK: What I meant that to mean was are we in line with what's happening in the industry or are out of sync.

MR. BAKER: What was the response from Bickmore?

MR. TABAK: The response was that Recology's experience is very much in line with what's happening in the industry, where the industry is seeing an increase in costs.

MR. BAKER: Was the question asked by the City as to what period of time would be an appropriate
MR. TABAK: That was one of the questions, yes.

MR. BAKER: What was that question?

MR. TABAK: Well, the question was whether the actuary used the most recent couple or two years to project trends going forward. And the question was whether using a more historic view would be more appropriate. And their response from the actuary was that in fact the two years is the more appropriate way to project going forward and, again, is in line with trends in the industry.

MR. BAKER: Are you satisfied that approach was appropriate in this case?

MR. TABAK: I believe so.

MR. BAKER: Let me mark as next in order, which would be Exhibit 47 an email from Mike Harrington at the Bickmore firm to Adam Tabak. Was this email passed on to Mr. Schoen?

MR. TABAK: No, not yet.

MR. BAKER: Oh, this is the first time he's going to see it?

MR. TABAK: First time. Yeah.

MR. BAKER: Wow. Okay.
My surprise was genuine. I didn't realize it.

MR. OWEN: We'll mark the document as Exhibit 47 and receive it into evidence. The document is two sheets and it's a printout of an email from Mike Harrington to Adam Tabak.

(The document referred to was marked for identification and received into evidence as Exhibit 47.)

MR. BAKER: And, again, who is Mike Harrington?

MR. TABAK: Mike Harrington works for Bickmore.

MR. BAKER: And is he the specific consultant who you called with regard to the liability insurance matters?

MR. TABAK: Yes, he is.

MR. BAKER: I have nothing further of these two witnesses.

DIRECTOR NURU: Thank you.

We'll go for cross-examination.

CROSS-EXAMINATION BY THE CITY

MR. LEGG: I'm going to ask a couple of questions. And then William Schoen, our consultant, is going to come up also.

William, you can come on up here, because I
just have a couple of quick questions.

First, on Exhibit 46, Mr. Baker, would it be possible for you guys to make a cleaner copy? This one, the page 3 in particular, is very hard to make out. Just a housekeeping thing for later.

I just have a couple of questions about the rate of payroll and especially what appears to be a pretty significant jump in costs allocated to the San Francisco collection companies in Year 2013, where overall allocations went up by nearly $2 million; and the share that's allocated to the collection companies went from 39 percent to 44 percent.

I'm curious what's going on at the collection companies that would claim -- that would cause that jump in claims, whether it's older claims or whether there are new injuries to employees? Or where is that cost increase coming from?

MR. TABAK: I believe that some of that increase is from the aging work force, higher workloads, medical inflation rates, and then also driven from the changes in the WCIRB and the job classification.

MR. NEWHOFF: There are a couple of items. I just want to add a little color to that is there are sort of two aspects to the increase in the overall costs for the collection agency.
One is the fact that we're allocating a larger number. So the overall cost for Recology in total has increased fairly significantly. That is, to a large extent, attributable to the California workers' comp environment. California workers' comp environment has become a lot more challenging over the past couple of years between the economy, between medical inflation ramping up, some legal decisions that are sort of undoing some of the good things that happened in the early 2000s. SB 899 really helped comp costs in California. That has sort of unraveled. So California comp costs overall have gone up.

And then, as Adam said, specifically to collections, the other component that's driving them to be a higher percentage of that bigger pie is their own loss history. So we weight against their exposure.

Again, I mention the fact that they were 20 percent of exposure but 37 percent of loss. We don't -- we didn't fully allocate the 37 percent. We took a credibility weighting of those two numbers to arrive at a final percentage to allocate to -- actually those specific numbers relate to Sunset Scavenger -- one piece of collections. But they did see some pretty dismal loss experience over the last few years that led to that allocation.
MR. LEGG: And I guess what I'm trying to get at is what's the cause of the loss at the collection companies, which seems to be proportionately much greater than the rest of Recology's operation. I assume all of your workforce is aging. I am.

MR. TABAK: Some of it's also the job classification, because these are collection companies.

MR. LEGG: But the job classification hasn't -- to go from 37 percent of the company's -- the percentage of total allocated in 2011 to 44 percent. I'm assuming that the job classifications haven't changed significantly during that time.

MR. NEWHOFF: The California rates actually -- the California loss costs actually have. If you look at the last column of that last exhibit, that's just California industry rates. It's actually a loss cost, not a rate. It's only the loss portion. But you can see those last two numbers. They're going from 5.32 to 7.63. That is a whopping increase and it even far outstrips what the increase was for Recology specifically. It is indicative of the problem that not just California but this particular class code is experiencing.

MR. LEGG: But for the industry rates for Recology SF are also going up significantly. But Recology SF's percentage of the total -- and part of that
is clearly moving from one company to the other. It just seems like -- maybe it is -- is it all in the industry rate, that big difference that the industry rate for collection versus -- and the job classification is different and that's what's driving the big increase with the collection companies?

MR. NEWHOFF: I think that's certainly an indicator you can look to and say, obviously relative to other job classifications, that one seems to be increasing more. And then you'd have to do some digging that wouldn't be particularly actuarial to figure out what's actually driving that. But I think that is a driver.

And then once you kind of know that, then you look to the actual experience, because the San Francisco collections operations is fairly large. Its own data has a fair amount of credibility. So we can actually look at their own loss experience and say, "Does this seem to be tracking with these California rates?" And it's actually not as bad as the California rates, but it is tracking on an upward trend for sure.

MR. LEGG: Are the number of claims filed with the collection companies going up particularly fast or the severity of injuries?

MR. NEWHOFF: It's primarily a severity issue.
Frequency has been relatively flat.

MR. LEGG: So I guess my last question is what steps is the company taking to prevent the rate of serious injuries from going up?

MR. TABAK: Right. So some of the things that our risk director is doing is he's put in a score card for us to monitor claims. He's also implementing new training programs. He's realigned the resources within the safety groups so they're now reporting up through him. And we've also reassessed our vendor partners to better maintain the costs, or control the costs.

MR. LEGG: When have these changes taken place?

MR. NEWHOFF: Some of them just in the last six months. And in talking to him, we won't see the results for another year or two out. But we're hoping to control the costs.

MR. LEGG: Okay. Thank you very much.

William Schoen has some questions also.

CROSS-EXAMINATION BY MR. SCHOEN

MR. SCHOEN: Thank you.

My questions are very similar to Mr. Legg's. You were looking at about a 20-percent increase over the two-year period. And I'm wondering if you can talk a little bit more, expand upon how much of that is
industry-specific increased costs industry-wide versus
Recology's performance. You kind of touched on that,
but I think that's a key aspect of this that we need to
understand.

MR. TABAK: Right.

MR. NEWHOFF: Yeah. As I've said, we've
looked at Recology's experience over multiple years.
Maybe want to kind of put it in the context of
chicken-and-the-egg a little bit, because really what
we're doing today is we're collecting the data today and
sort of letting it tell us where it takes us.

So how much the increase is, we're not really
looking at a historical number and saying, "How much
should we increase that for our new projection?" We're
really just looking at the information as it stands
today and saying, "What is our best estimate?" And then
we can sort of back into it and say what does that mean
as far as an increase.

But the numbers that we've come up with here
that we show on this allocation, this $6.22 million to
the collections operation, that is our best estimate
based on today's information.

Now, I understand your point that that does
represent a fairly substantial increase from historical.
And there were some general comments you can make,
again, about workers' compensation in California, some poor loss history within Recology specifically. But I guess I just want to make it clear that we have made our best estimate based on the most current data as to what the appropriate allocated amount is for this operation.

MR. SCHOEN: You mentioned the poor loss history. Can you explain? What does that mean? Are they not performing well? Is their trend a negative trend? Is that something that should be factored into a projection in terms of looking at a more reasonable, if you will, performance for purposes of projections?

MR. NEWHOFF: Well, again, the one statistic that I kind of pointed out earlier on was that Sunset Scavenger had 20 percent of the exposure but 37 percent of the loss content, which indicates that they are performing relatively poorly, based on what you would expect from their exposure. It does appear to be a relatively consistent poor performance. Some of the reason it's factoring in more now is because, as you get more years of information and more years of data, the actual loss information becomes more credible. So when we're weighting this 37 versus this 20, the 37 is getting more weight now, because we have more years of experience and we have a larger population of data, a more credible population of data to work from. So it's not just that
it's trending poorly. It's that it's more credible. It's that we're using their own loss history as a stronger indicator of the current situation.

MR. SCHOEN: Okay. Mr. Tabak, maybe you can speak a little bit more to the performance and any diagnostic review that the company has done in terms of what's driving the injuries. We realize San Francisco is a unique environment, so we did look at your MOD factors relative to the industry and they're higher than the standard that's expected.

But what, if anything has the company done? I understand you're looking at safety going forward. But looking back at those industries -- or those injuries -- what's the driving factor and what, if any, actions have been taken to try to address those and minimize those going forward?

MR. TABAK: Yeah. It's like you said, it's the environment that we operate in. I mentioned some of the things that we're doing going forward. Anything beyond that I'd probably need to go back to the director of risks and insurance about that.

MR. SCHOEN: And I know we touched on that a little bit when we talked last time. And perhaps you could go back -- again, it's sort of a diagnostic review. What are those injuries? And is it just a factor of the
workplace? Or are there specifics that you've been able to specifically identify and actions that can be taken to minimize those?

Mr. Newhoff, getting back in terms of the company's performance and understanding it's somewhat unique. But to what extent are you able or have you been able to benchmark their performance to the industry as a means for assessing how well they're doing relative to the industry?

MR. NEWHOFF: Relative to the similar class codes in the workers' compensation in general, we look at what we call the MOD factor, which basically is saying what is your rate relative to the California rate for that type of employment overall.

And, again, it's kind of interesting to note that, while, specifically in the case of collections, where we do see this large increase, even though we have seen an increase, their increase relative to the California overall increase they have not gone up as much. We are seeing something in the neighborhood of a 40-percent increase in the California rates primarily for collections. But for that overall rate for Recology, the rate has increased substantially; it hasn't increased 40 percent. So really swimming upstream here. Really in a tough environment in
California. And while the increases are not ideal, they're not on the order of magnitude that they could be.

MR. SCHOEN: You were stating that the 40 percent. What was that specifically in terms of a factor? Because I know we had also talked about the loss costs.

MR. NEWHOFF: Yeah. If you look at that last page of Exhibit 46, the last column there, and you look under the collections section, you see the rate for California. That's the industry factor, went from 532 to 763. So, like I say, that's in the neighborhood of 40 percent.

MR. SCHOEN: What about the loss costs, because I know that --

MR. NEWHOFF: That's actually is confusingly labeled. That actually is a loss cost.

MR. SCHOEN: That is the same. So when we looked at the historical, this is just an abbreviated portion of that. Okay.

Can you talk a little bit about SB 863 and what that is and how it might impact comp costs now or into the future and if that's been considered in the projections?

MR. NEWHOFF: Yes. It's relatively new
legislation that came across in California. That's gone into effect now. Again, WCIRB, the California bureau, they have been pontificating on what they think the outcome of that might be. I think it is still very much in the air.

There are some aspects of it that are anticipated to control costs. They are supposed to strengthen the medical provider networks so that employers have more control over the medical care of their employees and you can kind of weed out some of the docs that have a bad reputation for running up costs. On the other hand, there are some increases to the fee schedules. So the schedule amounts that employees will get if they're disabled, there's some increases there. So that's somewhat offsetting.

I believe at this point WCIRB's best estimate is they think maybe somewhere in the neighborhood of a three-percent improvement in overall costs, based on the outcome of this legislation. But there are other onlookers who believe that that may be overly optimistic.

So has it specifically been factored into my analysis? No, at this point not, because it seems like almost a wash at this point.

MR. SCHOEN: And the impacts when do we expect
to know what the results might be? Is it a year? Two years?

MR. NEWHOFF: Again, given the nature of workers' compensation, that it is a fairly long-tailed business and that it takes time for these things to kind of flow through the numbers, it won't be like flipping a switch. It will be a gradual process. But over the next couple of years, you should start to see if it's having the intended impacts.

MR. SCHOEN: Can you just go back to the loss rate and the company performance relative to the industry? So if we look at this, their loss rate is higher but it's increased at a lesser rate than the industry. Can you perhaps explain what's going on in the industry and the extent to which Recology is not experiencing as big an increase? So it sounds like, while they are high, they're controlling their factors better over recent time.

MR. NEWHOFF: Right. As we've mentioned a couple of times, there are some very specific challenges within the California environment at this time. I have to admit I don't know within a certain class code what might make the situation worse in this class code versus that other class code. Obviously, this increase on collections is appalling and dramatic.
But just California, in general, we've seen substantial increases in medical inflation. So it's back in double digits again. So medical costs are rising significantly.

We had a piece of legislation, SB 899, back in the early 2000s, which had a marvelous impact on California workers' compensation cost. We saw them almost cut in half in the earlier 2000s, but a lot of those gains have been unraveled. So increases in litigation and some of the controls that that law was able to put on as far as -- I'm going to be a little fuzzy on the specifics -- but as far as, like, adding on body parts. Once you got one thing got injured, adding on another part, and saying, "Oh, well this part is injured too." Some of that was controlled. And now those controls are weakening. So all that is of a piece that's caused a pretty difficult California comp environment. And we've seen across -- we work for a lot of different clients and across the board we've seen substantial increases in comp costs for the majority of our clients.

MR. SCHOEN: Similar to what we're seeing here?

MR. NEWHOFF: This is -- overall, yes. Overall, yes. The specifics within San Francisco
collections that was a bigger increase than I would call normal, but --

    MR. SCHOEN: Than Recology as a whole?
    MR. NEWHOFF: Recology as a whole.
    MR. SCHOEN: Where we take into account the allocations between the two?
    MR. NEWHOFF: Exactly, yes.
    MR. SCHOEN: So what we're seeing here is not atypical of what the industry is experiencing going forward as projected.

Can you talk briefly about self-insurance and the benefits or detriments of that in terms of the overall costs?

    MR. NEWHOFF: I guess there are a couple of issues there. There's self-insurance, which is kind of a process you have to qualify for. There's having a high deductible, which they're similar. They both mean you sort of pay out of your own pocket, but self-insurance is something you have to go through in California; and there's some costs associated with that.

    But if we're just talking about the basic idea of paying your own losses versus buying insurance, the self-insurance program is almost always beneficial. There have been some rare instances in California where insurance writers have been willing to really take it in
the shorts and write for way less than the expected losses. We're not in that environment right now. And so, as opposed to paying all of the insurance companies' frictional costs, companies are generally much better off retaining some of that risk themselves.

MR. SCHOEN: That's all I have. If I can reserve to come and talk about the liability, I just want to read what we were given and we'll go from there. Thank you.

MR. LEGG: Peter?

CROSS-EXAMINATION BY THE RATEPAYER ADVOCATE

MR. DEIBLE: Just one or two questions. Mr. Newhoff, I want to see if I can try a different angle of attack here, seeing IF we can understand this a little bit better -- or I can understand it better.

So I'm familiar with MOD factors and this data over here on the back of exhibit 46. Can you hazard a guesstimate of the percentage of MOD factor that is really a function of factors outside of a company's control? Have to do with the market. Have to do with regulatory issues, legislative, et cetera. And the percentage that have to do with how that company manages safety itself and its own safety record. Is there any way to do that?
MR. NEWHOFF: It's an interesting question. I think it would vary so much from company to company. Some companies have done a very good job of sort of capturing the low-hanging fruit and instituting programs that reduce their costs so when the market-driven forces start moving the other direction, they have sort of already captured the things that they could do to mitigate those market forces. If they have not done those things and if there is still some low-hanging fruit, then they have an opportunity to mitigate the market factors. So apportioning between the two, I'm afraid I'm going to punt on that one.

MR. DEIBLER: Well, following up on that, one other question: Do you have any thoughts about how the City could best incentivize Recology to keep these costs as low as possible or to set a benchmark and minimize or reduce from that point forward, focusing on the things that they can control, because obviously they don't control the external environment, like to the degree they can control certain things, what would an incentive look like?

MR. NEWHOFF: Absolutely. I think some of the things that Adam mentioned previously about some of the controls that Bill Lyons is attempting to institute are good examples. The one thing that I think we've seen,
kind from an analytical standpoint -- and I think Recology is already doing this to a certain extent -- I don't want to speak out of school if I'm missing something that's already going on. But we have seen allocation programs -- real carrot-and-stick allocation programs -- go a long way toward mitigating costs.

So if you tell an individual location where you get down to a person who really has some control of the day-to-day corporations and can really make some inroads in those things and you tell them your bonus or your -- some portion of your livelihood depends on you getting these costs under control, we've seen that work to good advantage.

And maybe Adam can speak a little more about what's actually instituted at this point.

MR. TABAK: You're talking about tying employee compensation?

MR. NEWHOFF: Yeah.

MR. TABAK: We have not done that yet.

MR. DEIBLER: And to the extent that would be helpful for San Francisco, that would need to be a corporate policy, right. Recology has 20-plus affiliates, I believe. Each of them would need to be looking at that sort of program ideally.

MR. NEWHOFF: Right.
MR. DEIBLER: But even if it was just here in San Francisco, it could help, because this is probably the largest single operation.

MR. NEWHOFF: I guess it's hard to do on a piecemeal basis. You kind of need to get buy-in from the group in general to do a proper allocation, but that's --

MR. DEIBLER: Thank you. No further questions.

Thank you, Mr. Nuru.

DIRECTOR NURU: Thank you.

Any other cross-examination?

MR. LEGG: No, I think that's all.

MR. BAKER: May I ask a couple more questions, please?

MR. LEGG: Absolutely.

MR. BAKER: Thank you.

FURTHER DIRECT EXAMINATION

MR. BAKER: Mr. Tabak, Mr. Deibler was asking about programs. And you talked about that a little bit as well. Can you -- and then Mr. Newhoff talked about different things companies can do.

Can you go into a little more detail as to what Recology is doing with regard to, say, performance measures as a way of addressing workers' compensation cost issues? Or am I asking the wrong person?
MR. TABAK: You might be.

MR. BAKER: All right. We will maybe have somebody else who can follow up on that.

Mr. Newhoff, during your testimony -- I want to ask you some questions about some terminology. You testified that -- you used the word "poor," "poor performance," that Recology or that the workers' compensation in the collection companies was poor.

Do you mean -- and Mr. Schoen went into that a little bit with you.

Do you mean to say that Recology is performing poorly in this area in relation to its industry peers?

MR. NEWHOFF: No.

MR. BAKER: So when you use the word "poor," I guess that's an actuarial term. What does that mean?

MR. NEWHOFF: Yes, very technical. What I was referring was, actually specifically in the case of Sunset Scavenger, sort of the spread between what their exposure sort of on a very broad-based indication would have suggested their loss history would have been, versus what their loss history actually was.

So just within Recology, Sunset Scavenger appears to be creating more loss content than, quote/unquote, their share, just based on the amount of payroll that they have.
MR. BAKER: Okay. So when you talk about expectations --

MR. NEWHOFF: Yes.

MR. BAKER: -- is that purely a quantitative expectation based upon the number of people working for a company?

MR. NEWHOFF: And the type of work they're doing, yes.

MR. BAKER: And when you say "the type of work" --

MR. NEWHOFF: Within the class -- collections or, again, if it was clerical or whatever else it might be.

MR. BAKER: And you mentioned that the State has come up with different ratings for different types of jobs; is that right?

MR. NEWHOFF: That's correct.

MR. BAKER: In particular, what is the industry rating that you're referring to in comparing Recology's performance for its collection companies?

MR. NEWHOFF: We're looking at them relative to the rates promulgated by the WCIRB.

MR. BAKER: For what category of workers'?

MR. NEWHOFF: It's a blend of all the various class codes. Again, in the case of collections, there is
a class code for collections; and that is the predominant payroll for those operations. There's a smattering of others and we weight those all together, but collections is the predominant one.

MR. BAKER: So it's refuse collection?

MR. NEWHOFF: Yes, correct.

MR. BAKER: We'll have another witness on Wednesday to address in particular what the company is seeing as to the type of additional injuries, the severity of injuries, et cetera, and go into that in a little more detail. And we'll address some of the programs as well, some of the remedial programs that Mr. Tabak touched on. We'll address those in more detail as well.

DIRECTOR NURU: Okay. That's fine.

Mr. Legg, do we have any other topic?

MR. LEGG: Mr. Schoen has some questions about Recology's request in an area called sustainability. And I believe Mr. Braslaw probably is going to be --

JON BRASLAW,

having previously been placed under oath, testified as follows:

FURTHER CROSS-EXAMINATION BY THE CITY

BY MR. SCHOEN:

Q. The sustainability line item. Can you explain
what's covered under that that's in the overall cost?

A. Sustainability is one of the Recology corporate departments that has a cost allocation contained in the rate application.

Q. What costs -- specific costs -- are included? Labor? Other?

A. Primarily labor and related costs in addition. There are some -- a small amount of professional services and then general overhead costs for rent -- office rent, office supplies -- stuff like that.

Q. And of the direct labor, how many positions are we talking about that are included in sustainability?

A. Two.

Q. And those two staff, specifically can you talk about what their duties are. I understand one of those is Chris Chote and Mary Suwai?

A. Correct. Christ Chote is Recology's director of technology. He works on -- primarily on zero waste initiatives, anaerobic digestion. He's looking at different technologies related to plastics processing. He works with the Climate Action Registry. He works, again, extensively with our composting operations, primarily to evaluate emerging technologies and help guide the company toward its composting initiatives.
Q. And what portion of his labor costs are included in sustainability in the rate application?

A. All of his cost.

Q. All of his costs?

Does that make sense to include all of his costs, given his sort of broader responsibilities to anaerobic digestion, emerging technologies, plastics processing, all of which would apply to, I would think, most if not all of Recology's other operations?

A. Well, he is part of the corporate departments and corporate allocations. So, in fact, his costs are treated the same way as other corporate costs which have been included in the rate and rates for all the years that I've been involved. As an example, Adam who was up here testifying, is the corporate controller. He works on corporate activities that are specifically related to San Francisco but also related to all of the other Recology subs. His costs are allocated to San Francisco along with the other subs.

Chris Chote is allocated a similar way; but, in fact, Chris Chote's activities are much more specifically related to San Francisco than Adam's. The reason is that in San Francisco we are pushing towards zero waste. We need to understand emerging technologies. We need to develop our expertise in
anaerobic digestion. We need to move forward with our composting operations in terms of having those that knowledge so that we can more effectively collect materials, process them, divert from landfills. So I believe actually Chris's activities are very much related to the goals that we have set and that the city has set to move toward zero waste because we need that knowledge in order to take those additional steps.

Q. So is it about 50 percent for his allocations similar to the other allocations of corporate to the San Francisco collection and RSF?

A. Correct.

Q. Okay.

A. Yes. So it's allocation of the department.

Q. And all of his costs are included in that allocation, which is a percentage to the rate base?

A. Correct.

Q. And how about Mary's responsibilities and what she does?

A. Again, Mary's costs are recognized and allocated the same way. And, again, Mary is a corporate employee and there's several things that she does that are primarily at the corporate level, but there are things that impact and affect the San Francisco corporations.
So, as an example, Mary does a lot of work with outreach. So she works on some of the outreach activity at the corporate level but also some of the things that happen in San Francisco at the San Francisco level. So she's been involved in some of the media activities where people have come in from different places. They've filmed San Francisco operations. She's brought a lot of publicity and a lot of what we believe is beneficial information about San Francisco out.

She also works on company uniforms. She works on developing things that the company provides as part of its outreach like recycled bags. So we provided a bunch of bags in various events around San Francisco and other communities. These are reusable tote bags with Recology information on them. She's done a lot of work on that.

A lot of what she does is work that really is focused on education. So basically, again, in order to meet the zero waste goals, the companies believe it's very important to have a robust information flow to help educate our customers and to the general public as to why these goals are important.

She also works on the Websites, company Websites. So the San Francisco Websites which we
provide to our customers, she does lot of work there. She also works on the corporate level sustainability reports, so we do sustainability reporting. It's one of the things that, again, we communicate out to our customers that we are conscious of that activity and we think it's important.

Q. What's her title?
A. I don't know. I'd have to find out.

Q. Some of those things you just described seems like corporate branding. Is that a correct assessment?
A. Yes. I'd say that's a reasonable characterization. And, again, this is another example. Again, if we think about the corporate activities and then the fact that those activities result in costs that are allocated to basically all of the Recology subsidiaries -- and it's been pretty much -- it's an industry standard practice and it's been a standard and accepted practice here for many, many years.

She does work on branding. We believe that branding is also very important to bring the zero waste message forward and to educate our customers and the public on the kinds of things that we do.

As you're aware, over the last few years we went through a project and we rebranded as Recology. One of the real benefits is that it allowed us to talk
about recycling, to talk about zero waste, to talk about the kinds of things that we need people to be educated about in order to change their behavior and move them towards those pretty difficult diversion goals. And we think that branding is a critical component of that, that without that I think you would have a much more difficult time reaching people.

Q. But there's a direct benefit to Recology as a whole outside of the companies in terms of landing, looking for new business, that type of thing that you could question whether all those costs are appropriate to include in the rate base because there is that, I think, potentially significant benefit corporate-wide as you expand and go out and seek to increase your business. Is that a fair assessment?

A. Well, any costs that we incur associated with business development -- new business -- are excluded from the allocations. That's true. But also producing audited financial statements is a critical component of going out and bidding on business, but the costs of producing those audited financial statements is a recognized requirement for running a corporation that is, again, recognized in this process as a component of the an allocated cost.

So I guess from my perspective I don't
really see a significant difference between the nature of that as an allocated cost from, again, financial or environmental compliance. We have a director of environmental compliance. He provides services sometimes directly to San Francisco, but he also does a lot of general oversight work that we believe is important to maintaining an environmentally responsible company.

Q. Can you get us her job title and sort of a project or job description and percentage of time she spends on those different types of things so we get a better sense of what she does?

A. Absolutely.

Mr. Schoen: Okay. Thank you.

That's all I have.

Director Nuru: Thank you.

Mr. Legg: Before -- oh, Ratepayer Advocate has some questions.

Cross-examination by the Ratepayer Advocate

Mr. Deibler: Thank you, Mr. Legg, Mr. Nuru. I'll try to keep it to one. Or one train of thought anyway.

Q. Mr. Braslaw, Recology has, I think, approximately 20 affiliates. Does that sound right or --
A. I believe there are more.

Q. If we look at the different operations, maybe more. Some of those are collections. Some of those are composting facilities or landfills, et cetera, right? They each operate as a separate cost center?

A. Correct. I don't know exactly how many there are, but I believe there are probably more than 20.

Q. Okay. So quite a few of those are collection contracts with municipal entities, right? Cities, counties, joint powers authorities?

A. Correct.

Q. Correct. And do any of those have zero waste goals?

A. Do any of the municipalities? I actually don't have the knowledge to speak definitively whether they have zero waste goals or not. I know they have -- generally most of the communities that we operate in are interested in diversion, so they may have diversion goals and there are state-mandated diversion goals. But to my knowledge, I don't know that any of those communities have a zero waste goal consistent with San Francisco's.

Q. Okay. But there's a number of communities on the Peninsula that are Recology companies, Recology cities. Recology is the collector that do have zero
waste goals. So maybe they're not quite as lofty. I don't know how you measure that. But they're certainly interested in the outcomes of the same issues that you're looking at for San Francisco.

So my point being I'm not sure why San Francisco Ratepayers should bear the full cost of developing those programs and of the thought process that goes into it.

I think you've commented, but if you want to comment more, that's fine.

A. Actually I need a clarification. The full cost of the sustainability?

Q. The sustainability. We're specifically talking about sustainability and in particular the first gentleman I think that you were talking about.

A. Right. Chris Chote.

Actually, the San Francisco companies done bare the full cost of his service. They have an allocation, as does the South Bay companies -- SBWMA. They also have an allocation of his costs. So his cost is, in fact, allocated across all the Recology entities. And there may be some entities that are really not interested in some of the kinds of programs that we are interested in in San Francisco, but his cost is allocated to them nonetheless.
Q. Okay. Is that done on revenue?

A. The sustainability department is allocated on revenue, correct.

MR. DEIBLER: Okay. Thank you.

MR. LEGG: All right. At this time I'd like the companies, if you have any other information or exhibits that you want to present.

I think we will withhold any further cross-examination until Wednesday, but I would like to have you introduce anything that you're planning to introduce and ready to introduce on revenue projections, apartment services, and the caps or anything else that will allow the City to prepare for Wednesday.

MR. BAKER: All right. So, first of all, on the question of revenue and waste generation, do you want any testimony at all or should I just get the document in so you have a chance to look at them and then testimony would be on Wednesday?

MR. LEGG: No. Why don't you do testimony today. It look like your people are ready to answer are your questions.

MR. BAKER: Eager almost, wouldn't you say?

JOHN GLAUB and JON BRASLAW, having individually previously appeared and placed under oath, testified as follows:
FURTHER DIRECT EXAMINATION

MR. BAKER: We have Mr. Braslaw and Mr. Glaub both back on the stand, both of whom have previously been sworn.

Let me first ask you, Mr. Braslaw, these rate proceedings are to set rates for residential and apartment customers, correct?

MR. BRASLAW: That's correct.

MR. BAKER: Does the revenue that Recology San Francisco operations receive from commercial customers play a role in the calculation of residential rates?

MR. BRASLAW: It does. It offsets the costs so that the remainder, which is residential and apartment rates, cover the remainder of the revenue requirement.

MR. BAKER: And how about revenue that Recology San Francisco operations earn from compactor and debris-box services?

MR. BRASLAW: Those are also used to offset the costs. So those revenues are included and the costs are likewise included.

MR. BAKER: So does the rate application include projections for net commercial revenue and net compactor and debris-box revenue in San Francisco to aid you in performing this calculation?
MR. BRASLAW: They do.

MR. BAKER: In making the projections for the next year, do you have to make assumptions regarding what the trend direction of commercial and compactor and debris-box revenue in the coming year?

MR. BRASLAW: We do.

MR. BAKER: And how do you go about making that projection?

MR. BRASLAW: Generally, we look at historical data and look at if there's other information about anticipated changes, if we think there are program changes; and then we use that data and make a projection, look at -- also, potentially look at economic factors. And we think that could provide information about what the future looks like. We also look at migration patterns. Given the last few years and changes in the program, we also take that into account.

MR. BAKER: Let me show you a chart that you've prepared; and we will mark this as next in order.

MR. OWEN: We will mark the document as Exhibit No. 48. It's a single sheet, a chart with the title "Recology Sunset Scavenger, Recology Golden Gate Revenue Trend."

(The document referred to was marked for identification and admitted into
evidence as Exhibit 48.)

MR. BAKER: Can you tell us what Exhibit 48 is, Mr. Braslaw?

MR. BRASLAW: Exhibit 48 is a monthly revenue trend for the various customer segments. It shows the revenue by month for each of those segments from December 2010 through December 2012.

MR. BAKER: And what did you conclude from this exercise?

MR. BRASLAW: I concluded that for each of the revenue segments, when looking at the revenue levels in December 2010, residential, apartment, commercial and compactor and debris box were all lower in December of 2012 than they were in December of 2010.

Further, if you look at the annual numbers basically taking 12 months from January through December, the 2012 numbers for residential and apartment and commercial are, in fact, lower than they are in 2011.

MR. BAKER: So what sort of trending are you projecting for the coming rate year?

MR. BRASLAW: For the coming rate year, we included in the rate application revenues -- base revenues -- that reflect the latest 12 months. That was from February 2012 through January 2013. And even though
the revenues are trending down slightly, we felt that the last 12 months can cover seasonal fluctuations and was the best representation of what the revenue we pictured to be going forward into the future.

MR. BAKER: So you're are saying that your projections are flat, that is you're not projecting revenues from the commercial sources to either go up or down?

MR. BRASLAW: That's correct.

MR. BAKER: And if it turns out that the revenues continue to trend downward, what impact would that have on the company?

MR. BRASLAW: The companies would not receive the same revenue that's included in the rate application and would create a revenue shortfall and lower the companies' earnings.

MR. BAKER: Let me hand out another document here and then ask Mr. Glaub about this one.

MR. OWEN: We will mark this document as Exhibit No. 49 in evidence. It's three sheets bearing the title "Revenue and Waste Generation versus Economic Indicators, San Francisco."

(The document referred to was marked for identification and received into evidence as Exhibit 49.)
MR. BAKER: Mr. Glaub, is this an analysis you prepared, Exhibit 49?

MR. GLAUB: Yes, it is.

MR. BAKER: And what is that analysis?

MR. GLAUB: To determine the impact of economic changes in San Francisco on Recology's business, we undertook an analysis where we compared various published economic indicators with Recology's collection company revenues and the total tonnage handled in Recology's operations in San Francisco. And we conducted that analysis over the last two full calendar years, 2011 and 2012. Five different economic indicators were included in this analysis; and they were office occupancy, hotel occupancy, employment, tourism, and population. And we configured -- we used the economic indicators in such a way that they're presented on a basis so that an increase in the indicator corresponded to increased economic activity. And then we compared that, as I've mentioned, to our collection company revenues over that two-year period and also the total waste that we handled through our operations.

MR. BAKER: So what principle were you testing here by doing this exercise?

MR. GLAUB: We were testing the correlation of these economic indicators with the actual state of our
MR. BAKER: Did you find, for example -- well, not for example -- did you find that economic activity in the city as a whole has been trending upward since December of 2010?

MR. GLAUB: Yes, we have. All five economic indicators have trended upward over this last two-year period -- again, office occupancy, hotel occupancy, tourism, employment, and population. At the same time, our revenues have decreased over this two-year period and the total amount of waste that we handled from our customers decreased over this same period.

MR. BAKER: So do you, Mr. Glaub, or you, Mr. Braslaw, have an explanation as to why there's not a correlation, at least during this period of time?

MR. BRASLAW: I believe that the reduction in revenue is driven in part by the migration to more diversion services. But as Mr. Glaub said, there's also an overall reduction in waste generation.

I think in part it's a reflection of the changing demographics of the city and the changing kind of functional activity. As new commercial businesses come on, they tend to be wide-open offices, people with laptops at tables. They don't generate a lot of material. I think, also, as businesses leave and new
ones come, they tend to come in with more diversion
service than trash service. And so that's a reduction
in revenue that's reflected there.

MR. BAKER: Mr. Glaub, the first page of
Exhibit 49 is a summary of your analysis; is that true?

MR. GLAUB: Yes.

MR. BAKER: Then the chart that I have
projected on the screen is the second page of Exhibit 49.
What's the third page?

MR. GLAUB: The third page is the raw data
behind the chart. And the chart is presented in
graphical form on a normalized basis, so with everything
normalized to the end of December of 2010/beginning of
January 2011.

MR. BAKER: Thank you. I have nothing further
on that subject.

DIRECTOR NURU: Okay.

MR. BAKER: We have a couple of other exhibits
that we will introduce now and save cross-examination for
later.

MR. OWEN: Exhibit 50 in evidence is a single
sheet with the title "Zero Waste Incentives."

(The document referred to was marked for
identification and received into
evidence as Exhibit 50.)
MR. BAKER: Mr. Glaub, what is Exhibit 50?

MR. GLAUB: Exhibit 50 is a tabulation of the zero waste incentive tonnage goals. This table is consistent with the verbal description of these goals as contained in the narrative summary of the rate application. We were told to present a quantitative table year by year with the four tiers of the tonnages; and that's what this table represents.

MR. OWEN: All right.

MR. OWEN: Exhibit 51 in evidence. This is a single sheet with the title "Recology San Francisco Weighted Average Cost of Capital Calculations, Calculation of Small Company Size Adjustment."

(The document referred to was marked for identification and received into evidence as Exhibit 51.)

MR. BAKER: This one is for Mr. Braslaw. Mr. Braslaw, can you tell us what Exhibit 51 is, please?

MR. BRASLAW: Exhibit 51 is a calculation of the small company adjustment that was included in the weighted average cost of capital calculation associated with Contingent Schedule 1.

MR. BAKER: I was just trying to get the exhibit number so that we have the reference to that.
This relates to Contingent Schedule 1?

MR. BRASLAW: Correct.

MR. OWEN: Exhibit 52 in evidence is a single sheet with the title "Recology Sunset, Recology Golden Gate Analysis of Apartment Caps and Migration, Apartment and Commercial Migration to Date."

(The document referred to was marked for identification and received into evidence as Exhibit 52.)

MR. BAKER: And just for further reference, Exhibit 51 provides the -- that we just talked about -- provides the further explanation of the weighted average cost of capital that's set forth in Exhibit 27.

All right. Now, Exhibit 52. Mr. Glaub could you tell us what this is --

MR. BRASLAW: Actually, I'll --

MR. BAKER: I mean Mr. Braslaw. Pardon me.

MR. BRASLAW: This is a table that shows some migration over the last few years from 2009 through 2013 for apartment and commercial customers. It's a table of volumes of the various streams and how they've changed during that period.

MR. BAKER: And how does that bear on the application?

MR. BRASLAW: It's an indication of some of
the migration that's taken place. It also indicates
that, at the time that mandatory recycling came in, there
was a considerable amount of migration. It slowed. And
at this point we believe, once we introduce a new rate
structure, it will then reinvigorate the process.

Again, it's intended to show that some
migration has gone on, but we anticipate there's more to
come.

There's a second page on the back side of that
exhibit which shows the number of apartment customers in
each category that has more than minimum service that's
required. So there's minimum service required. Those
service levels were set by the City. They provided the
guidance and we measured the number of customers that in
fact have service in excess of that. You can see it's
pretty considerable. Almost 87 percent of customers
have more than the minimum required trash service.
About 75 percent have more than the minimum required
recycling service.

So it's our expectation that, especially in
the apartment sector, when we implement the new rate
structure, we'll see a good bit of right-sizing, which
is some of those service levels will now come down
towards the minimums.

MR. BAKER: And you testified about this on
the first day of the hearings, did you not?

MR. BRASLAW: I did.

MR. BAKER: And that the rate application
assumes a certain amount of migration among apartment
customers?

MR. BRASLAW: That's correct.

MR. BAKER: And this provides further backup
for that?

MR. BRASLAW: That's correct.

MR. BAKER: Okay. So we have one final
document we'd like to introduce today and then we'll be
done.

MR. OWEN: Exhibit 53 in evidence. It's a
single sheet with the title "Reconciliation of Rate
Application Revised versus Original Recology Sunset
Scavenger Recology Golden Gate."

(The document referred to was marked for
identification and received into
evidence as Exhibit 53.)

MR. BAKER: Mr. Braslaw, what is Exhibit 53?

MR. BRASLAW: Exhibit 53 is a reconciliation
of the rate application, the final application as
submitted, as compared to the original draft application.

MR. BAKER: And for what purpose are we
offering this exhibit?
MR. BRASLAW: This information was provided to the City staff and consultants, but this is an indication of some of the work that was done during the period between submission of the draft application and the submission of the final application.

There was considerable amount of work done between City consultants, the City staff, company employees, and company representatives to evaluate all the line items to examine the assumptions underlying the application to identify areas where changes were appropriate or things that were of concern to the City and the companies went through and made modifications to the application before submitting the final.

Again, this reconciliation -- and there's two pages for Sunset and Golden Gate, on the back is for Recology San Francisco -- is an indication of some of the work that was done, again, by City staff and consultants to examine the draft and to make changes.

MR. BAKER: And to briefly review, were there community workshops where members of the public could attend before the final application was submitted?

MR. BRASLAW: There was. There was a workshop. Members of the public attended, provided input and comments.

MR. BAKER: And were the changes from the
draft application and the final application a subject of at least one of those workshops?

MR. BRASLAW: Yes. Yes, they were.

MR. BAKER: Okay. So we have nothing further today.

DIRECTOR NURU: Okay. I believe the City is reserving cross-examination till Wednesday.

Does the Ratepayer want to ask any questions or wait till Wednesday?

Okay. So at this time I would like to open the public comment period. Could everyone wishing to speak, please give me a show of hands so that I can allow time for everyone to speak. Okay so it looks like we have about four or five. I will allow five minutes per person for public comment.

Since this is public comment only, you do not need to be sworn in unless you also intend to present material you'd like placed into the record. If that is the case, I'll have the clerk swear you in. Also, when you come forward, please state your name so that the court reporter can enter it into the record.

Thank you. Let's proceed with the first speaker, who I believe is Mr. Jim Haas.

MR. HAAS: Thank you. I'm Jim Haas, H-double-a-s. I've been involved in affairs at Civic
Center nearly 30 years and am on the board of directors of the Civic Center Community Benefit District, although I'm here today speaking for myself.

I'm not here to protest the proposed rates and I have no reason to know that they are not properly prepared. I'm here to put into the record my view that the -- there is a default of City policy which allows significant amounts of recyclable materials to be diverted from the Recology official stream into the hands of other people.

Now, I'm not talking about the little old Chinese lady that usually pops up when this issue becomes into public discussion. I am talking about an organized racket, an illegal syndicate, if you will, which hires numerous pickup trucks, stations them at various places, and then aggressively -- or then recruits the drug addicts and other desperate people who in the evenings aggressively go through the trash of apartment houses, restaurants, commercial buildings, and homeowners and bring the cans and bottles particularly to the pickup trucks, which are then consolidated and taken out of the city for sale.

Now, we have at the Civic Center been in the epicenter of this since we actually discovered what was going on about a year ago. And just to give you a brief
summary, we discovered this going on at Van Ness across
from Davies Hall at Lech Walesa Alley from anywhere from
5:00 in the evening till 3:00 in the morning. I was
appalled one day by attending an event at Davies Hall
and looking out the window and seeing two trucks and a
half a dozen guys with shopping carts doing
transactions, dumping materials from the shopping carts
into the trucks, and making a great deal of racket.

Now, the guys who go out and collect this
stuff, some of them steal the Recology bins from
apartment houses and other places. And I once just
saw -- and they bring them to where the trucks are and
sometimes they abandoned them there. I once saw over 18
of these abandoned bins on Market and Grove Street with
addresses like Post Street and Gough Street and Folsom
Street.

I complained to the police chief about what
was going on at Van Ness. Whatever he did, they moved.
And they moved to Grove and Hyde. They did their
business there for a while; and then the library
complained; and they moved to 8th Street. And I have --
when we got deeper into this we realized that there
needed to be concerted action.

I talked to the District Attorney. He has
assigned an investigator to this matter and asked,
because I said I would monitor what was going on at 8th Street, I would send once, twice, sometimes a week when I happened to be down there, reports on what trucks I saw. And sometimes I was able to collect their license plates. One night there were six trucks on 8th Street waiting to collect materials. And they collect the bottles and cans until the trucks are loaded to the top of the wooden partitions and then leave and another one comes.

Recology has shared with me videos of the activities that were going on in Lech Walesa Alley; and it gives you a really good sense of the magnitude of the material that was collected and transferred. The collateral problem of what this activity does is that the guys with the carts and the bins bring the stuff down. They often produce a lot of extra trash that gets put on the street that has to be cleaned up. They leave the bins after they have delivered their goods. Many of them hang around the transit station entrances at Grove and Market, panhandle people going to performances, sell stolen goods, engage in drinking, and getting into arguments and making a scene which is very deleterious to performing arts groups and other institutions in the area whose patrons may be are not as thick-skinned as someone like myself but come from Livermore with their
children for "The Nutcracker."

Now, Recology has been working with us and they've hired some 10-B officers who swept the area on several occasions. They've done it sufficiently so the trucks have left 8th Street. And for the last month we have been freed of the trucks. We've been freed of the carts, by and large. Certainly freed of the bins and freed of the excess trash.

But Recology has told me informally that we're talking about a diversion of perhaps as much as $6 million worth of goods. What we have done at Civic Center has solved the problem for the moment, but that does not mean it cannot come back. And I am eager to have the City crush this racket and eliminate the problem so that the neighborhoods are cleared of it and also that the income goes to Recology, where it should. And perhaps the rates can be lower.

Thank you.

DIRECTOR NURU: Thank you.

Next speaker listed here, Mr. John Wilkerson.

MR. WILKERSON: Good afternoon, Mr. Director.

I'm speaking today representing the San Francisco Housing Authority. And what I'm really coming for today is relief. We have been hammered by budget reduction after budget reduction from HUD. And with
sequestration, we've hit bottom almost.

We would -- we've been working with Recology. And they have worked with us very, very well. We meet weekly. We've reduced our trash bill somewhat, due to recycling and with Recology's help and working with their staff and also the staff of the Department of the Environment. And we're doing a pretty good job right now and doing better.

But we would like to know if we are eligible and if we could get on the life-line rate, as we present and house some of poorest of the poor in the City and County of San Francisco. And, like us, they can no longer take on any additional costs to their budgets as well. Our population in public housing in San Francisco, the average income is less than $11,000 a year. And we don't want to charge more in rent, but we would like to get some more relief. We've had a little through, as I said, recycling, but we need more. And that's why I'm here today. And any help that you and the Board can give us is greatly appreciated.

Thank you.

DIRECTOR NURU: Next speaker, Nancy Wuerfel.

MS. WUERFEL: Good afternoon, again. Nancy Wuerfel.

My topic today is to request transparency in
the money that DPW will be receiving through the impound
account as well as the relief that you'll be getting
when the abandoned waste is taken over by Recology.

I would like just to make sure that we all
have an understanding of where this is going. I
appreciate the comments of the Ratepayer when it was
asked will there be any more programs that are
transferred from the City onto Recology and the answer
was no. I appreciate that very much. But what I don't
hear is of the money that is currently spent by DPW for
litter-related and refuse-related programs, which is in
the neighborhood of 20 million, how much of that is
moving over into the rates.

And at the moment I want to remind you that a
year ago right around this time there was another Rate
Board hearing and the question was the extent to which
the garbage rate funds should pay for litter and other
street-related collection and disposal going forward.

I read the report from Greg Wagner, who at the
time was responding to this. But I didn't see an actual
answer of what is the extent to which. Am I to expect
that over time we will have a hundred percent of what
today's view of DPW is so that all of the money that is
now currently spent from the general fund to this
department's budget will then somehow be transferred
over to the Ratepayers. I really want a line in the
sand about how much money is going to be ebbing over and
how much money is going to be then maintained as a
requirement for the general fund to fund this
department.

I'm both a Ratepayer and a taxpayer, so I am
going to get hit one way or the other. But I also want
to make sure that, as money is saved by this department,
it is either returned to me and the general fund and I
can put it into either another part of your
department -- as I mentioned before, I'm a big fan of
street trees and I want you all to take care of them,
not the people who don't care or who will cut them down.
But I want to make sure that if DPW isn't going to be
using this money for it intended purposes that it gets
returned so that something like the library or Rec and
Park has use of it.

I think it's pretty clear were I'm headed on
this. I don't want to have a transparency were there's
windfall that comes back to you because it's on the
rates and that we don't know what then happened. And
it's not just holding the pattern. Any money that goes
into the rates, which at the moment I'm seeing is about
$9 million over time, is something that I would like you
to either acknowledge that you have that money and what
you're going to do with it or return it.

These are hard times and I understand I'm asking a lot, but I also want to make sure that I'm watching and that you know that we're paying attention to all of the nickels and dimes here. And I don't want migration to happen. Transparency is your best friend. We might give you what you ask for if you let us know that you've got it.

Thank you very much.

DIRECTOR NURU: Thank you. Would you fill out a speaker card, please?

MR. PILPEL: David Pilpel. I've got a potpourri of issues so let me just run through them, starting with the abandoned waste issue.

DPW has existing packer trucks that perform this function. What is the proposed disposition of those vehicles? Would they be sold to Recology? Would they be retired? What's the status of those trucks?

With respect to the City can maintenance proposed transfer, the -- it was represented earlier that for the last two months the companies have already been performing that function. Was there some agreement by which that occurred? And I'm really thinking more and more that that's either a contracting-out function of Prop J that civil service or Board of Supervisors
approval was probably required for that. It seems like it's work that's been done by existing City employees and now would not be. And I think that would give rise to a grievance or some other process in the City.

It was also represented that tonnage from City cans continues to increase, as opposed to the general flat line or decline of waste generation. And I know in the past when we've reduced the number of City cans, that has resulted in a reduction in waste generation from that stream. So it seems to me that continued targeted reduction of City cans would be going in the right direction. And I didn't hear discussion about that.

With respect to the service level, if DPW now has a 48-hour service level and the companies are proposing a four-to-eight-hour requirement, that seems ambitious and good on the one hand, but it doesn't allow for overnight routing of significant stops. So if it's known that there's an abandoned mattress somewhere, it doesn't seem to me like it's a priority to go scoop up in the next four hours. If items like that could be logged and scheduled with their Routesmart software, which I'm told is really cool, that seems like a reasonable service level. So 24 hours for nonsensitive waste would seem appropriate perhaps in general and
reserving the four-to-eight-hour window for only
priority items.

I believe that there's some supervision
proposed for the City can and abandoned waste program.
Wasn't clear who would be producing that supervision
within Recology. And, actually, that leads to a later
point. I asked at one of the workshops for the
organization charts for the company so that one can
follow the supervision and management positions and if
there's a way to track those positions to where they are
in the head-count portion of the rate application, that
would be good. So I would encourage production of those
organization charts so that we can follow supervision
and management issues.

With respect -- that is a new topic that
hasn't come up yet in this process. Public disposal and
recycling area and the bulky item collection programs
result in significant items that have reuse value. And
some of those items are collected and redistributed to
Saint Vincent de Paul, to other programs, and can be
reused. But I'm not aware that there's any current
tracking or incentive for those items. If it's not
possible to create an incentive during this cycle, at a
minimum I would ask that there be tracking of the
tonnage or dollar value -- probably the tonnage -- of
those items that can go to reuse and those that do from
those or other programs of the companies. It seems to
me that we should not just be attempting to recycle and
divert but to, in fact, reuse items that can be so
reused.

With respect to truck and garage, there were a
couple of brief questions about that today. My
understanding is that the company has two different
maintenance locations at Tunnel Road and at Seventh and
Berry. What would be the practicalities of combining
those two maintenance locations into one? Would that
have short-term costs for more facilities and
transferring functions and long-term savings both for
the companies and for the Ratepayers? I would like to
hear more about the truck and garage issue.

With respect to customer service, it was
suggested that two new customer-service representatives
would be added. I believe there's been some efficiency
from consolidating the Golden Gate and Sunset
customer-service operations. How have those
efficiencies been reflected in the rate application?

And just, finally, on the Recology San
Francisco Pier 96 operations, it seems to me that there
are three streams of recyclable commodity that come
through California redemption value items through
buy-back, non-CRV items through buy-back, newspaper and paper and cardboard and what not; and third is through Fan 3 and curbside. It's not clear how much of the tonnage comes from each of those three streams. And if that's reflected in one of the schedules that I didn't find somewhere, it would be great if someone could point to that. If not, it would be nice if the companies could show the tonnage from those three sources and, ultimately, if we could track back the costs and revenues, because they differ for those three programs because of the program parameters.

More next time. Thank you.

DIRECTOR NURU: Thank you.

If that's all our last speaker, then I will close public comment and close the hearing for today. Our next hearing is on Wednesday, the 24th. What room are we in? We'll be in Room 400, Wednesday, the 24th, at 1:00 p.m.

Thank you everyone for coming.

(The hearing adjourned at 4:48 p.m.)