CITY AND COUNTY OF SAN FRANCISCO

DEPARTMENT OF PUBLIC WORKS

DIRECTOR'S HEARING ON PROPOSED REFUSE RATES

2017 REFUSE RATE APPLICATION

CITY HALL

1 DR. CARLTON B. GOODLETT PLACE, ROOM 400

SAN FRANCISCO, CA  94102

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DIRECTOR NURU: Let the hearing please come to order.

Good morning, ladies and gentlemen. I am Mohammed Nuru, the Director of Public Works for the City and County of San Francisco and I will be the hearing officer for these proceedings.

The date is March 8, 2017. This is the first in a series of hearings to discuss the City's residential refuse rates. On February 13th of this year, Recology Sunset Scavenger, Recology Golden Gate, and Recology San Francisco, which we refer to collectively as "Recology," filed an application to raise residential rates with the Chair of the San Francisco Refuse Collection and Disposal Rate Board. The application is for the year starting on July 1st, 2017 and includes a formula to change rates annually for cost-of-living adjustments. These COLA adjustments would continue until there is a new rate order.

After rebating surplus amounts collected in prior years, the application seeks an average increase in rates for residential and apartment customers of 16.4% in the first year, a 4.98% increase in the rate
year 2019, and another 0.62% increase in the rate year of 2021. Without rebates, Recology's requested average increase for rate year 2018 would be 22.96%. Public Works conducts these hearings to discuss the costs and services that result in the proposed refuse collection and disposal rates.

The City is required to hold this series of hearings under an ordinance enacted by the voters in 1932. In addition to the rules set forth in the Ordinance, Public Works has adopted additional rules of procedure for these hearings. Copies of the procedure are available at the back of the room. The planned agenda for today's hearing is also available. I will briefly review how we plan to proceed today and in subsequent hearings. We have this room only until noon today, so I ask everyone to help me stay on schedule.

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

One more piece of housekeeping: I'd like the Public Works clerk to make an announcement concerning
our efforts to comply with Title VI of the Civil Rights Act, and ask your cooperation with a public participation survey.

Mr. Jose Pujol -- oh, Nathan.

Nathan Rodis, please proceed with your announcement.

MR. RODIS: Good morning, everyone.

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

You will find this survey on the sign-in table here in the front. Please place completed survey forms in the collection box.

Thank you.

DIRECTOR NURU: Thank you.

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

Julia Dawson, Deputy Director for Finance
and Administration with the Public Works Department.

Robert Haley, head of the zero waste program
with the Department of the Environment.

Manu Pradhan, Deputy City Attorney who will
represent the City on legal matters in these
proceedings.

Mr. Dwayne Jones, the ratepayer advocate.

His job is to facilitate the participation of the
residential ratepayers and I hope you will consider him
as a resource in this process.

Mr. Jones, please stand up. Thank you.

So I'll talk a little bit about these
proceedings. I want to say a few things.

The 1932 Ordinance requires the Director of
Public Works to make the recommendation on the
residential refuse rates within 90 days of the
application being filed. For us, that day is May 15.
During the 90-day review period, there will be several
hearings which will allow Recology and the public to put
before me information, concerns and/or recommendations
regarding the issues raised by this application.
The Director has the duty to recommend just and
reasonable rates and to order studies and investigations beyond Recology's assertions. I have requested that the City staff review and evaluate the rate application and make further necessary studies. The staff's findings and recommendations will be presented in future hearings.

Some of you may have attended our workshops on the draft and final rate application, which we held on October 18, 2016 and February 28 of this year. Public Works organized these workshops as a way of offering the public information about the rate increase request and an opportunity to ask questions. These workshops were not recorded and were much more informal than these hearings.

These hearings will be "on the record." Information will be transcribed and become evidence and serve as the basis for my decision. Anything said at these hearings and any document introduced as an exhibit will become part of the hearing record. I will weigh this information in making my decisions.

The purpose of today's hearing is to hear testimony from Recology in support of their application, to ask Recology about the application, and to hear public comment on the application. Recology and the City will be introducing exhibits that will become
evidence in these proceedings.

Let's go over today's agenda. In a few minutes, Recology will be offered the opportunity to make an opening statement. After this opening statement, Recology will present its detailed case and introduce exhibits and expert testimony in support of the application. After Recology has presented its application information, the City will begin cross-examination with questions about the proposed program changes and planned capital investments. The Ratepayer Advocate will also be offered an opportunity to ask questions during cross-examination. Then we will hear from the Ratepayer Advocate about their efforts to inform and engage the public about the rate application and these proceedings. We will reserve the last period of today's hearing and every day's hearing for public comment.

This hearing will be continued to next Wednesday, March 15, also beginning at 8:00 a.m. here in room 400. The topics for next week's session are also listed on the agenda, and if time permits, we will take one or more of those items today. We will also have two more hearings scheduled for Wednesday, March 22nd, and Tuesday, March 28, at which time we will hear further testimony from Recology. The City and the Ratepayer
Advocate will have a chance to ask questions. We will take public comment each day before we adjourn. The agenda for the other March hearings will be posted on the Public Works website next week.

Members of the public are welcome to participate in these proceedings in two ways. First, members of the public may speak during the public comment period and may offer materials to be included as an exhibit in the hearing record. Members of the public may also engage the Ratepayer Advocate, who will do his best to represent the public’s interest during cross-examinations. Mr. Jones will be present at all of the hearings. If you wish to speak during the public comment periods, please fill out the speaker’s cards, which are available at rear of the room and give it to the clerk, Nathan. I will apply time limits uniformly to members of the public wishing to speak; therefore, I must know in advance how many members of the public wish to speak.

After this initial set of hearings in March, City staff will prepare a draft report on the application based on the testimony at the hearings and any additional information that staff has gathered. The staff report is scheduled to be released around April 12th and will be the subject of additional
hearings scheduled for April 19 and 26 and May 3rd this year. I believe that these hearings will allow enough time for all of us -- for all issues to be raised and commented on by various parties. However, if necessary, additional hearings will be scheduled before I issue my report and recommended order in May.

I would also note that we have an additional regulatory requirement pursuant to Article XIII D, Section 6, of the California Constitution, also known at "Proposition 218" or the "Right to Vote on Taxes Act."

Under this provision, any residential customer or property owner may submit a written protest against the application. I will hold a separate hearing on May 4 at 9:00 a.m. to consider written protests received as of that date. If more than half of the ratepayers file a written protest against the application, the City will not approve it.

The guidelines for submitting written protests will be available on the Public Works website in three languages -- English, Chinese, and Spanish. Please note that while the public comment for and against the application will be taken on every hearing day, protests under Proposition 218 must be in writing and conform to the protest guidelines to be valid. Written protest may be submitted at any of these hearings, at the May 4
hearing, or be delivered to the Public Works' office in room 348 in City Hall before the May 4 hearing.

If you want to be notified of future hearings, receive a copy of the Director's Report and Recommended Order, or want to be notified of the hearings before the Rate Board, please make sure you've printed your mailing address or e-mail address clearly on the sign-in sheet.

Let's talk a little bit about the Rate Board proceedings.

As required by Ordinance, I will file my report and recommended order no later than May 15th, 2017 with the Chair of the Rate Board. Any party objecting to my recommendation must file an objection within 15 days with the Chair of the Rate Board.

If no objections are filed, then my recommended order will be considered final and will take effect no later than July 1st. If any objections are filed, then the Rate Board will hold a hearing on those objections. Based on the record from the series of Director's hearings, the Rate Board can grant or deny the objections. As I noted, the Rate Board is not permitted to consider any new evidence beyond what is presented in the record of these hearings during the 90-day review period.

In the event that the Rate Board does not make
a decision within 60 days, my recommended order will be considered final.

I would like to highlight an important aspect of the review process that I just mentioned. If you don't agree with the results of these hearings, you can file an objection to the Rate Board, and the Rate Board will make the final decision. The Rate Board is like an appeals court and cannot hear new evidence. The Rate Board will only consider arguments relating to the evidence and recommendations that have been developed in the Director's hearings. These hearings are the forum where you can ensure that your views are on the record and that any evidence you present is recorded.

Okay, let's get ready to begin.

We have these hearing rooms for a limited time, as I said earlier. Please make sure that everyone can speak and be heard at these hearings by arriving on time and using your time effectively. If you don't get a chance to speak, please come back to a later hearing or submit your comments in writing. I also encourage you to share your comments with the Ratepayer Advocate.

We are now ready to proceed.

Please remember that the use of cell phones, pagers, and other sound-producing electronic devices is not permitted during these hearings.
Is Recology ready to present its case?
Does Recology wish to make an opening statement?

OPENING STATEMENT BY THE APPLICANT

MR. BAKER: Yes, Mr. Nuru. I do, thank you.

Mr. Nuru, Ms. Dawson, Mr. Haley, Mr. Jones, my name is Mike Baker. I'm with the law firm of Arnold & Porter Kaye Scholer in San Francisco and my firm represents Recology Sunset Scavenger, Recology Golden Gate, and Recology San Francisco, the applicants in these hearings. With me today are my colleagues John Hughes and Carolyn Pearce. I wonder if they can stand so people know who they are.

The three of us will share responsibility for presenting evidence and examining witnesses during these hearings. And with us today also are a number of folks from Recology I wanted to introduce you to who are well-known to the panel above, Mark Arsenault and John Porter. Mark is the Regional Vice President, Group Manager in charge of San Francisco operations. John Porter is the Group Controller in San Francisco. Both of them will be testifying in these hearings along with others.

On behalf of Recology, we appreciate the opportunity to talk about Recology's collection and
recycling programs in the city. I'll spend the next few minutes providing an overview of the rate increase Recology requests. Recology seeks sufficient funding both to sustain its existing programs and also to provide new services and facilities that Recology and the City have worked together to develop. As with other applications over the past several years, this application is submitted against the backdrop of the City's drive toward zero waste. The City's Board of Supervisors set that goal in 2002 when it adopted a resolution committing the City to achieve 75% diversion by the year 2010 and setting a further ambitious goal of eventual zero waste.

The Board's 2002 resolution assigned a task of determining a target date for zero waste to the San Francisco Commission on the Environment. And a year later in 2003, the Commission set a goal of zero waste in San Francisco by 2020. The City met the target set by the Board of Supervisors of 75% diversion by 2010, a remarkable achievement in and of itself. Recology, City officials, and city residents and businesses have received international recognition for these efforts. But there is obviously still more to do if the goal of zero waste is to be achieved. This rate application proposes changes and capital improvement to continue to
move the City towards that goal.  
You'll be hearing about a pilot program to recover more materials from the black trash bins.  
You'll hear about programs to encourage greater use of the blue and green bins.  You'll hear about modified truck configurations and truck routes to accommodate more blue bin material.  You'll hear about how Recology's new responsibility for collecting abandoned material in the city is succeeding.  You'll hear about recent upgrades to the recycling-processing equipment at Pier 96, Recycle Central.  And you'll hear about proposed new facilities to more efficiently and effectively capture recyclable and compostable material.  
As for the new facilities, the application proposes three.  First, Recology requests funding for a new facility to process green waste.  The need is an immediate one.  The amount of green waste that Recology collects in the city has climbed substantially since the Board of Supervisors adopted the City's Mandatory Recycling & Composting Ordinance in 2009.  The principle reason, of course, for that increase has been the disposal of food scraps in the green bins, as the Ordinance requires.  
Recology 's transfer station for green waste is a small building at Tunnel Beatty that has had many
uses since it was built almost 50 years ago. For many years it was the location for the Artist in Residence program. It's only 7,500 square feet in size. It lacks a modern odor and liquid control system. It poses numerous traffic challenges, numerous logistical challenges. It is totally inadequate for its current use.

The new facility that Recology proposes is called the "West Wing." It will be almost twice as large. We'll have a state-of-the-art odor and liquid management system and will be designed for efficient and safe traffic management. The two other proposed facilities are both contingent, which means the final design, permitting, and pricing are still to be completed; therefore, Recology requests that contingent rate schedules be approved that will provide funding for these projects if and when final plans are presented to and approved by the Director of Public Works.

The first contingent proposal is for a new iMRF to process construction and demolition debris. The current iMRF at Tunnel Beatty is inadequate for the amount of construction and demolition debris now generated in the city -- inadequate both in size and due to outmoded equipment. It also needs to be replaced.

The second contingent proposal is to take
advantage of the move -- the anticipated move of the
iMRF for new programming. And so the second contingent
proposal is for a black bin processing facility to be
housed in the current iMRF once those operations are
moved to a new location. Recovering recyclable material
from the black bins is a critical next step toward zero
waste.

You'll hear about a pilot program that
Recology proposes to be approved in this application to
test ways to effectively recover recyclable material
from the black bin stream. This pilot program will
guide the development of the black bin processing
facility proposed in the contingent portion of the
application. You'll hear about the proposed new
facilities of both the West Wing and the two contingent
facilities from Maurice Quillen and Meghan Butler,
and you'll hear about the proposed changes to curbside
collection operations from Dan Negron and Minna Tao.
And you'll hear from other witnesses as well.

Recology last sought and received a rate
increase in 2013. Since then there have been notable
and significant increases in costs that warrant this new
rate. First is the City's new landfill agreement which
began a little over a year ago. A Recology subsidiary,
Recology Hay Road in Solano County, won that contract in
a competitive bid. Hay Road's winning bid offered a tip fee that was less than half of that offered by the competing bidder, Waste Management. Still, the new disposal costs at Hay Road are considerably higher than they were under the old Altamont Landfill contract, which dates back to 1987.

Further contributors to increased expenses are higher labor costs under the Company's new collective bargaining agreement, and due to requests in increases in head count to staff-proposed program changes that you'll hear about. Another contributor is increased regulatory costs at Recology's composting facilities near Vacaville and Vernalis, California. A further contributor is a new lease with the Board of San Francisco for Recycle Central at Pier 96 which is more than double the rent at that facility.

John Porter, the Group Controller, will address the specifics of these and other expense issues later in the hearings.

As the Director indicated, the rate increase that Recology seeks averages 16.4% per customer after accounting for proposed rebates. For a typical single-family residence, the increase would be from the current rate of $35.18 a month to $40.88 a month, a monthly increase of $5.70. And as you'll hear,
Recology's collection rates continue to compare very favorably to those in other Bay Area cities.

The Companies welcome the scrutiny. That is an important part of this process. As you will hear, the Companies are enthusiastic about the many programs Recology offers with the City's support and about how those programs benefit the City's residents and our environment. To sustain these programs, Recology now seeks this rate adjustment which, apart from small cost-of-living increases, will be its first in four years.

So with that, let me now step down and let you hear from the folks who run the programs, who have done the number crunching and analysis that you'll hear more about.

Thank you very much.

Shall we call our first witness?

DIRECTOR NURU: Yes, please.

MR. BAKER: Okay. Mark Arsenault, please.

DIRECTOR NURU: Okay. Our clerk will swear in the witness as they introduce themselves.

MARK ARSENAULT,

having first been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION
BY MR. BAKER:

Q. Good morning, Mr. Arsenault.
A. Good morning.

Q. Can you state your full name, please.
A. Mark Arsenault.

Q. What is your position at Recology?
A. Vice President, Group Manager of Recology San Francisco.

Q. When did you take on that responsibility?
A. Three years ago.

Q. And your predecessor was who?
A. John Legnitto.

Q. And he passed away and you took his place?
A. That's right.

Q. So in that position, what are your responsibilities as they relate to why we're here today?
A. I oversee and am responsible for all the operations in San Francisco, including collections and processing, all the facilities' safety operations, customer service, maintenance -- the entire operations in the city.

Q. And there are Recology subsidiaries for which you are responsible?
A. There are. Two collection subsidiaries,
Recology Sunset and Recology Golden Gate, as well as the processing facility Recology San Francisco.

MR. BAKER: Mr. Clerk, would you put that first slide up?

Thank you.

BY MR. BAKER:

Q. So those companies are depicted on the screen that's displayed?

A. They are.

Q. So can you describe just -- I think most people here are probably familiar with all this -- Your screen's not working?

A. No. But -- now it is. Got it.

So the circle to the right represents the collection companies. They're geographically separated in the city -- Sunset Scavenger as well as Golden Gate.

Q. It's actually to the left.

A. It's to the left.

Sorry, first circle to the left.

And then all of the materials that are collected from those companies are processed initially through Recology San Francisco, which would include the circles further to the right. The organics materials, those are transferred and go to the two processing facilities that you mentioned earlier,
both Blossom Valley North as well as Jepson Prairie. The recyclables, they are processed here in the city at Recycle Central on Pier 96. And then all of the trash is transferred to Hay Road in Vacaville.

Q. Now, when Recology San Francisco sends organics to the two Recology composting facilities that you described, Jepson and Blossom Valley, is Recology San Francisco charged a tip fee?

A. They are.

Q. And is that tip fee incorporated into the Recology San Francisco's costs for this rate application?

A. That's correct.

Q. And when Recology San Francisco sends trash to the landfill at Hay Road, does Hay Road charge Recology San Francisco a tip fee for that?

A. They do.

Q. And is that tip fee also incorporated into the costs that make up this application?

A. Yes.

Q. And then what about when Recology San Francisco sends material from the transfer station which is at Tunnel Beatty; is that right?

A. Yes.

Q. When it's sent over to the transfer station at
Pier 96 for processing, how is that handled?

A. Actually, most of the material goes directly to that location in collection trucks. All the revenues from that material flow back in through the rates. They are an offset essentially to the cost. The tipping fees for all three commodities have a single rate that is essentially passed through the collection companies.

Q. So the collection companies -- Recology Sunset Scavenger or Recology Golden Gate are charged a tip fee by Recology San Francisco?

A. That's correct.

Q. And the tip fee that Recology San Francisco charges the collection companies covers both the collection of black bin material and also the collection of the blue and green bin material?

A. Yes.

MR. BAKER: We're going to have a number of exhibits, so I think -- let's start by marking the application as Exhibit 1. And the application is very thick. It's also available online. So I think we worked out an agreement with Ms. Dawson that what we would put in the binders and submit here as an exhibit will be an abbreviated version of the application and the full record will be reflected with the online version.
Is that acceptable, Mr. Nuru?

DIRECTOR NURU: Yes.

We'll mark it and proceed.

MR. BAKER: The application is marked as Exhibit 1.

BY MR. BAKER:

Q. Mr. Arsenault, why did three Recology companies submit an application for rate adjustment at this time?

A. We reached a point where our revenues needed an adjustment to accommodate all of the not only existing costs, but new programs that are anticipated in this rate application.

Q. And the last rate hearing was in 2013?

A. That is correct.

Q. So it's been four years?

A. It has been.

Q. Now, part of the procedural rules for these proceedings call for a workshop to be put on before the hearings begin; is that right?

A. That's right.

Q. And you attended that workshop?

A. I did.

Q. Do you remember when that was?

February 27, wasn't it?
A. Yeah.
Q. February 28th?
A. Yes.
Q. Okay. And did you distribute a PowerPoint presentation at that workshop?
A. I did.

Mr. Baker: Why don't we go ahead and put that into evidence.

So a document entitled "Recology 2017 Rate Application Technical Workshop, February 2017" will be marked as Exhibit 2.

Mr. Pradhan: And just for the record, Exhibit 1 was received in evidence, "2017 Refuse Rate Application." There is 18 pages.

(Exhibit 1, "2017 Refuse Rate Application [Recology]," was admitted into evidence.)
(Exhibit 2, "Recology 2017 Rate Application Technical Workshop PowerPoint [Recology]," was admitted into evidence.)

By Mr. Baker:
Q. I'd like to show you one of the slides that you used at the workshop. And this slide is more or less a summary of some of the issues that you discussed at the workshop?
A. It is.
Q. So could you -- using this as an aid if you want -- describe to us in a little more detail what the cost drivers are for this new rate application.

A. Certainly.

Q. Before you do that, I guess I should add that the Group Controller, John Porter, will testify later and will dig into the details of the expenses further. But I wonder if you could just give us an overview.

A. I'll start over on the left with "Program Changes." One of the first big cost drivers is actually this program change which is designed to reduce the size of the trash can and increase the size of the blue bin.

The current default service that most residents have is a 32 gallon blue bin, a 32 gallon black bin, and a 32 gallon green bin. And what we're looking to do is actually trying get to zero waste as to reduce the amount of space that can be used to discard materials.

And so by reducing that black bin to 16 gallons, half the size of the 32, we think that will more accurately represent materials that are remaining that cannot be repurposed or recycled and then double the capacity of the blue bin, the recyclable bin. With the onset of Amazon and all the cardboard and all the additional materials that we can now recycle, there is a need for changing that service. It was initiated many,
many years ago when some of those commodities were sort
of at equal balance, if you will, with trash. That time
has changed, so we think it's time to change those
containers. And then to keep the compostable bins the
same. That seems to be adequate as well for the way
residents were using the service.

So in making those changes, it drives us to
look at our existing fleet of collection vehicles which
were designed many years ago with the good intent of
increasing productivity. By instead of having three
trucks go by every home, we were able to put two trucks
by every home. And the collection as it is today and as
it was started many years ago is to collect the
recyclables in one side of the truck and the trash on
the other side of the truck and the compostables are
collected in a separate truck. And the reason for that
is that not everyone sets out the green or compostable
materials every week, so we're able to take advantage of
that efficiency of adding more homes, if you will, to
that route because it doesn't stop at every home.

So in shifting to the smaller trash, upsizing
the blue, we need to reconfigure the way trucks are
collecting at the homes. We still want to stay with the
two trucks. Nobody wants any trucks going by their
home, but we certainly don't want three if we can help
it. And so what we'll do is -- or what we're proposing to do is shift that green which is more imbalanced weight-wise, volumetrically-wise with the trash in a split-body truck and then repurpose and add trucks for the single-chamber trucks to pick up recyclables. That way, we can make sure that we're collecting all that cardboard that seems to be in the stream as well as all the other additional recyclables. So it will be a much better fit for what we're trying accomplish.

Additionally, as I look down this list --

Q. Before you do that, let me ask a couple questions to what you just said.

Are all customers going to be required to reduce the size of their black bin from 32 gallons to 16 gallons?

A. No, they won't be required, but it will be the default program. So the program is anticipated to roll out over two-year period. It will be the new default service, if you will. You will have the option to opt out if you want to use that size and continue with the configuration that you have or change that configuration. But if we don't hear from you, we're intending to deliver the two new carts, the 16 black and the 64 blue.

Q. Will customers who have limited storage space
for their three cans, are they going to be upset by
these blue cans becoming twice as large? I mean, will
its profile be twice as wide or twice as tall? How will
that work?

A. That's a good question. Its profile won't be
twice as wide or twice as tall, but it will be a little
wider, certainly a little higher. Those carts can be
seen. Several residents already have those 64-blue
carts. People with larger families already subscribe to
them. But in some cases it will be difficult and we
might have to make some accommodations for that.
We're hoping it will be limited.

Q. Have you had any experience under the current
program of customers filling the blue bins to the brim,
not having enough room for recyclables, and therefore
putting recyclables in the black bin where they have
more room?

A. Well, I can tell you one thing: The blue bins
are absolutely at capacity as you drive through the
city. You see the lids up quite a bit. You see
cardboard outside, so that tells me that that is overdue
in terms of changing the capacity of that bin for many
residents. If they are not able to fit cardboard in the
blue bin, we do encourage them to put them in the green
bin if they're compostable, but we are constantly
striving to achieve the highest and best use of these materials and composting cardboard is not the best use of that material.

Q. The best use is to recycle them?
A. Absolutely.

Q. You mentioned about the cardboard. And from your perspective, you're seeing more cardboard in the system?
A. Yes.

Q. And why do you think that's so?
A. Amazon is having a big influence on that.

Q. Can you explain what you mean by that?
A. A lot of people are shopping online, so people's buying patterns have changed dramatically over the years. More and more shopping is done online, if you will. Unfortunately, it comes with a lot of packaging. A lot of packaging. And so we need to adjust the system to accommodate that.

Q. So continuing on your slide here regarding what's driving this particular rate application, what's the next item?
A. The next item is "Abandoned Material Collection." We have a very robust program, the 311 program that's integrated into Public Works. We have a service responsibility to pick up abandoned materials
that are dispatched through a central hub within four
hours' notice. And unfortunately, we continue to see a
lot of abandoned materials, and we want to make sure we
keep the city clean and get that material off the street
in a timely fashion. And so the projections really do
speak to the need to increase that service.

Q. This is an anecdotal question that will never
be permitted in court, but do you think that Recology's
practice and ability to respond to abandoned material
requests more quickly has had any impact on the behavior
of citizens of the city in terms of using that service?

Or is that not a problem, do you think?

A. I can't say one way or another with respect to
our quick response. But you know, the ease with which
people can use their cell phones to use the 311 app is
clearly, I think, an influencing factor.

Q. But in any event, this application seeks
additional funding to expand the abandoned materials
program?

A. It does.

Q. And the additional funding is for more trucks
and more people?

A. That's right.

Q. And again, we'll hear more about the specifics
of that later on.
A. I'll shift over to "Higher Costs."

"Composting regulations," it's a very different application when you are composting what people consider to be yard waste or green waste versus food waste. And in San Francisco, the abundance of the compostables that we manage are in fact food waste, both commercial and residential. We have all sorts of food waste. We are a Mecca for food waste here.

And so the water board and the air board and other regulatory agencies in California have looked at this issue. There's also new legislation that will be expanding the collection and processing of food waste in California. And so in anticipation of that, these regulations are governing, if you will, improvements to the sites and upgrades to the sites to make sure there's protection for the environment. And it adds costs, essentially, to managing and processing this material. So that is one of the drivers. The other is the landfill agreement that you spoke about.

Q. So as far as the organics -- so that means that the tip fee you're charged by Jepson and by Blossom Valley has gone up and that's also driving higher costs for Recology San Francisco?

A. That's correct.

Q. And what about the landfill agreement?
A. The landfill agreement was -- I don't quite know the age of the prior one, but I think it's 25-plus years; so it was done at a negotiated very low rate. It stayed in place for all those years and, as you described, the new landfill tip fee is higher. And so that's a big driver on the issue of costs.

Q. And so who has the contract now for the landfill?

A. Recology Hay Road.

Q. And is that a contract between the City and Recology Hay Road?

A. That's correct.

Q. When did the City begin -- or when did Recology, at the direction of the City, begin sending trash to Hay Road?

A. January of last year.

Q. And where did it go before?

A. Altamont Landfill.

Q. And Altamont is operated by whom?

A. Waste Management.

Q. Now, Recology got the contract for the landfill in a competitive bid; is that right?

A. That's right.

Q. And who is the other bidder that steps along the way to be qualified?
A. That predates me, but certainly Recology Hay Road. I don't know who the other bidders were.

Q. Do you know if Waste Management was one of the bidders?

A. Yes.

Q. Okay. But that was before you got -- you were involved -- you were responsible for other Recology matters. Actually, I should ask you: What did you for Recology before you became the Group Manager here in San Francisco?

A. I had a similar role for Recology South Bay, so all the counties essentially on the west side and the south side of San Francisco: San Mateo County, Santa Clara County, San Benito County, all of those counties.

Q. And how long have you worked for Recology altogether?

A. Twelve years.

Q. And who did you work for before that?

A. I worked for Waste Management for a series of years as well as a company called BFI, Browning-Ferris Industries, for many years.

Q. So the landfill agreement is more expensive?

A. It is.

Q. What about labor?
A. I believe there is a -- you know, "the labor," you're talking labor related to the landfill?

Q. No, labor related to this rate application.

A. Labor related to this rate application?

Two components on the labor. One is a new labor agreement, and the other is the additional head count necessary for the expansion of these programs.

Q. And in terms of the narrative that is submitted with the application identifies labor costs as one of the drivers of the increased expenses.

Approximately how much of the increased labor costs are attributable to the collective bargaining agreement that was recently signed and how much is attributable to new programs?

A. John could probably better speak to that, but it's roughly half and half.

Q. Now, a new lease agreement with the Port is not listed on your slide because it's fairly recent, I think.

A. It is recent.

Q. Tell us about that.

A. Maurice will be the best person to describe that lease. But it has a reset provision that has taken effect or will be taking effect. I don't know that it's more than double, but it's certainly if not close to
double, double the cost that we've been paying. And it also has an escalating -- an encapsulated look at the biggest increase is a rent reset that is predicated on other lease arrangements that the Port has in the southern part.

Q. And this is for Pier 96?
A. It is, yeah. Recycle Central at Pier 96.

Q. Now, further important feature of the application are proposed facility improvements. So let's start with the West Wing. What is driving that part of the application?

A. You touched on it, but essentially the facility is not only too small for the 600-plus tons of compostables that we move through that little building every day, but it is virtually rotting under the heavy acidity of the nature of the compostables. It is not able to adequately contain the moisture that is, you know, very prevalent in organic material as well as odor and actually can't be completely enclosed, so there are a number of issues with that building.

We're in an area that, many years ago, didn't really have any neighbors, but we have a large number of new neighbors and existing neighbors that we meet with and we want to make sure we are good neighbors. And that program has grown to the point where we really have
to have a facility that better manages that. And so it will be the West Wing, hopefully. That will be an addition to extend out to the west side of the transfer station. It will have a separate loadout. It will have an air/odor control monitoring system as well as have high-speed doors. So it will be a state-of-the-art facility for that kind of transfer of material.

Q. And what is Recology's proposal as to when they would like to start construction of that new building?

A. As soon as it's approved.

Q. Now, the application also includes a pilot program for black bin processing, which relates to these other housed new facilities. So tell us a little bit -- we'll hear more detail about this from Mr. Quillen, but tell us a little bit about what is proposed with regard to this pilot program.

A. Certainly. We average approximately 1,100 tons of black bin or trash material that goes right into what we call "the pit" and right to the landfill. So this proposal is looking to separate 100 of the 1,100 tons a day in organic rich loads, preferably, then run it through a series of screens as well as a press, and we're looking for two commodities as a result of that separation of
processing.

One is the what we call the "overs."

There are still plastics, bottles, cans, other recyclables, paper, that remain in that trash. And then the organic fraction will be pressed under high pressure and extract the organic fraction that is then going be sent over to East Bay MUD and converted through digestion into electricity. Those overs, then we'll be able to process them and recover those materials.

You have to have a mechanism to get them efficiently into a transfer truck, get them over to Recycle Central, and then set up some sort of screening systems that we have anticipated to be put in place that will then segregate those materials and ideally extract the recyclables that remain.

Q. So you say this is a pilot program. So does that mean that Recology is not yet convinced that this is the way to go as far as collecting material?

A. Yeah, that's fair way to, I think, characterize that. We wanted to make sure in the contingent schedule that we really understand this material very well. We have a series of vendor partners that are working with us that have helped us through the Recycle Central modifications, which have been extraordinarily successful. Everyone has a different
view, frankly, of how to process trash, and we want to make sure we get it as close as right before we launch on 1,100 tons a day.

Q. Is processing trash kind of the last frontier toward zero waste?

A. It is. In this environment, it is. Other think you can burn it, but we're not subscribing to that. So yes, it is last frontier.

Q. Is it fair to say that the technology of dealing with that, those last few steps toward zero waste, the black bins, has not yet been solved?

A. Absolutely. Not yet been solved and looking at different possible technologies that actually, you know, utilize that trash or set them up into many different manufacturing scenarios. So we're looking at everything.

Q. So that brings me back to the contingent proposals of the new facilities. We'll return to the black bin process in a moment, but tell us about the thoughts regarding iMRF.

A. The iMRF is an approximately 40,000 square foot building, which seems large but not when you're managing the really bulky construction, demolition, and other type of bulky materials. We handle, again, 600-plus tons a day of that material. It is running
through a line, a processing line that is entirely manual. You can imagine the difficulty in capturing the recyclables in that kind of scenario. The technology has advanced substantially in the years since that equipment was put in place. There's a lot of air separation and other optical systems that are able to assist with that separation.

So it too is very outdated, and so what we're looking to do is relocate it and put in new equipment that will move our ability to dramatically recover those materials from approximately 50% to 70% or better. And so significant improvements as well as the ability to handle the volumes that are presently going who knows where. But anyway, I think something would be good for the future that in repurposing that building, we'll then be able to --

Q. Before you get to repurposing, let me ask you about regarding the iMRF.

A. Sure.

Q. Are there some occasions when Recology cannot process all of the construction and demolition debris that is presented to it and has to be sent to another facility to be processed?

A. Yes, during peak seasons. That's accurate. Those materials begin -- we just can't get through that
much material.

Q. And where do you send it?
A. Down to San Jose.

Q. To another company?
A. To another company.

Q. And why is this proposal for a new IMRF called a "contingent schedule" as opposed to just being part of the current application?
A. Because it's dependent upon a couple of things. It's dependent upon permitting, permitting approval, environmental approval, as well as final construction drawings and final costs. So you know, it's essentially shuffle-ready, if you will. Right now it's on paper with a lot of work that engineers have done to, you know, spec it out. But it's contingent upon the final cost as well as the permits included.

Q. And again, we'll hear more about the details of that later both in terms of the costs and plans.

But if you are successful in building a new IMRF, that would leave the current facility empty; correct?
A. That's correct. We still definitely use this facility until the plan isn't actually contingent. We'll be able to put the materials into what we call "pits," and then transfer it across into what was the
iMRF, and set the processing operation up on that side of the facility. It gives us more flexibility in terms of transfer and processing.

Q. In terms of where the current iMRF is located?
A. Yes.

Q. But isn't that also a part of the proposal for the new -- a new black bin processing facility?
A. Yes. If I confused you, once the iMRF is moved, then that space, approximately 40,000 square feet plus the existing space in the pit will all be utilized to manage and process the trash.

Q. Again, using processes and technologies that are still being worked on?
A. That's correct.

Q. All right. Let's move to the proposed rate increase.

Again, is this another one of these slides that you used at your workshop?
A. It is.

Q. So the slide has several columns. And we have "Current Default Service" on the left, and then the middle "Current Default Service Levels with New Rates," and then on the far right, "Proposed Default Service Levels with New Rates."

So can you explain what's depicted here.
A. Yes. Starting, I guess, with the "Unit Charge," the columns are all self-explanatory as you described. You got the component, and then the volumes in gallons, and then the charge across the board for both the current default and new service levels and then the proposed default service levels.

So the component, if you will, or rather the unit charge, that is presently a $5.16 per home charge. I don't believe it was in place prior to the last rate application. And essentially it's an effort to restructure the economics to account for the fact that as we shrink from black to zero, ideally there needs to continue to be a source of revenue to be able to fund the collection service. So that's one aspect of the unit charge. The other is that there's a fixed amount of cost in just getting these trucks to every home. And so that's why it was introduced that way.

And then the trash is presently at $25.90, and the blue is at $2.06 and the green is at $2.06. None of those fees, if you will, accurately reflect the cost of providing those services. I am sure at one time the blues probably had no cost and the green as well. But in actuality, all these of those carts are respectively the same costs to collect with the exception of the processing fees and some other minor
modifications.

So the new default service level proposes to change the fixed cost to $20 dollars, which more accurately reflects the cost of just getting these trucks to the homes. And then the trash brought down from $25.90 to $10.44. And then we used even increments of that $10.44 and replaced the blue with half the cost and green as well. So that is the thought process in developing this rate structure, if you will.

Q. So following up on this bid, as you mentioned, the last rate hearing in 2013 was the first time that a unit charge became part of the rate structure.

A. That's my understanding.

Q. But in 2013, with the introduction of the unit charge, it was -- it's now $5.16; is that right?

A. Yes.

Q. And this rate application proposes that go up to $20?

A. That's correct.

Q. But then it also proposes that the charge for
the black bin go down?

A. Yes.

Q. And it proposes that the charge for the black, blue, and green bins all be in effect the same based on volume?

A. Yes.

Q. And that is $5.22 per 32 gallons?

A. Correct.

MR. BAKER: This is my assistant here.

MR. PILPEL: $5.22 per 32 gallons.

MR. BAKER: Oh, thank you. I misspoke.

Mr. Nuru, everyone. Mr. Pilpel.

BY MR. BAKER:

Q. Now, if someone accepts the default service, which is the far right-hand section, will they end up with more overall capacity for the same price as the current service?

A. They will. 16 gallons more capacity, that obviously being with the larger blue bin.

Q. And that's because you add 16 gallons for the black, 64 gallons for the blue, 32 gallons for the green, and that comes up to a higher number than 32 times three?

A. Exactly.

Q. Okay. Now, this is the proposed rate for a
single-family home. And I think you've mentioned this, but customers can choose different sizes if they want. They can choose more volume, less volume?

A. The only thing that they will not be able to select which they currently are able to is a 96 gallon black service. We just feel that there is no logical reason for someone to have a single-family home to have that much black service; so that will be eliminated.

Q. Some customers today have a 20 gallon black bin; is that right?

A. That's correct.

Q. Will people be able to keep that?

A. They will. They'll be able to keep the 20 gallon cart so long as the cart continues to be functional and useful. We don't want to just go out and replace those carts. They're close in capacity to the 16s, and so I think it would be a good use of the existing carts.

Q. Okay. And then there are other rates for apartment buildings; correct?

A. Yes.

Q. And we'll hear about the details of those from other witnesses.

A. All right.

Q. So I'd now like to turn to another important
feature of this application, and that is the use of the
Zero Waste Incentive funds and Special Reserve funds.
And this again, is another one of the slides you used in
your workshop; is that right?
   A. Yes.
   Q. So can you generally describe to us what the
Zero Waste Funds are and how they factor into this
application?
   A. The Zero Waste Funds are incentive
opportunities for the companies to earn more if we
achieve certain diversion goals. They are essentially
broken down into four tiers, 1 through 4. Each of the
tiers, if it is accomplished in terms of diversion, is
the equivalent of one-half of 1% of profit.

   And so that's the Zero Waste Incentive. Tiers
1 and 2 of the four, if they're not achieved, they're
then rebated back to the customer to offset any
additional rate increases or rates, if you will.

   Tiers 3 and 4, if they're not achieved, we're
able to apply to the Director of Public Works for use of
those funds to further our technology and our efforts to
recover that material. Recycle Central, Pier 96 was a
good example recently of how the Tier 3 and 4 funds were
applied to rebuilding that facility, which has had
phenomenal --
Q. Phenomenal what?
A. Very, very positive impact.
Q. Now, the Zero Waste Fund was established by the 2013 Director's Report and Rate Order; is that right?
A. That's my understanding.
MR. BAKER: And again, we'll offer the 2013 Director's Report later as an exhibit.
BY MR. BAKER:
Q. But you indicated that the Tier 3 and Tier 4 funds under the Zero Waste account could be used by the Company with the approval of the City for certain purposes to improve recycling and improve recovery, improve the system; is that right?
A. That's right.
Q. And did Recology achieve the Tier 3 and Tier 4 levels --
A. No.
Q. -- in any of the years since the 2013 rate order?
A. Not to my knowledge.
Q. And did Recology therefore make an application to the City to use those funds?
A. We did.
MR. BAKER: I have some exhibits that I'll put
BY MR. BAKER:

Q. Exhibit 3 is a nine-page document entitled "Recycle Central Material Recovery Facility Upgrade Proposal, December 8, 2015," is that right?

A. Yes.

MR. PRADHAN: Exhibit 3 will be moved into evidence.

(Exhibit 3, "Recycle Central Material Recovery Facility Upgrade Proposal, December 8, 2015 [Recology]," was admitted into evidence.)

MR. BAKER: Thank you.

BY MR. BAKER:

Q. What is Exhibit 3?

A. Exhibit 3 is the proposal from the Company for its improvements to Recycle Central in use of the available Tier 3 and 4 funds that we cannot achieve in terms of our current numbers.

Q. And this was a proposal that describes specifically what Recology was proposing to be done with those funds; is that right?

A. It is. It gets into some detail in terms of the equipment, that the expectations -- or the outcome, and largely describes the capital improvements we were proposing and the costs associated with them.
Q. So Mr. Quillen, after you're done, describe
the improvements in more detail. But if you look at
page 8 at the bottom of Exhibit 3, does that set forth
the proposed project costs?
A. It does.
Q. And what's the total cost?
A. Approximately $11.3 million.
Q. Exhibit 4 is a letter dated January 29th, 2016, two pages, from Mr. Nuru to you, Mr. Arsenault; is that correct?
A. Yes.
MR. BAKER: So we offer this as Exhibit 4.
MR. PRADHAN: Exhibit 4 is moved into
evidence.
(Exhibit 4, "January 29, 2016 letter
[Recology]," was admitted into evidence.)
BY MR. BAKER:
Q. So is this letter, January 29, 2016, the
response that Recology received to its Pier 96 proposal?
A. Yes.
Q. And essentially the Director of Public Works
approved of the proposal; is that correct?
A. Yes.
Q. Now, was there -- were the funds available
under the zero waste program sufficient to cover the
entire $11.3 million dollar cost as of the time of this letter, early 2016?

A. No, there were not at that time.

Q. So what in particular did Recology seek approval for as far as funding at this point, January of 2016?

A. At this point it was for Tier 3 and 4 funds from '13/'14 and '14/'15 in the amount of approximately $6 million dollars.

Q. And by the letter of January 29, 2016, the Director of Public Works approved release of those funds to Recology?

A. Yes.

Q. Exhibit 5 is a letter dated August 25th, 2016, one page, again from you, Mr. Arsenault, to Mr. Nuru?

A. Yes.

Q. Is this a letter you sent to Mr. Nuru on that date?

A. It is.

MR. BAKER: Okay. So we ask for the admission of Exhibit 5.

MR. PRADHAN: Exhibit 5 will be moved into evidence.

(Exhibit 5, "August 25, 2016 letter [Recology]," was admitted into evidence.)
BY MR. BAKER:

Q. What is the purpose of this letter, Mr. Arsenault?
A. The purpose of this letter was by August, we had passed the July -- essentially the measurement date of achieving or not achieving those diversion goals. We did not achieve those diversion goals, so at that time we were able to request those funds to complete that project at Recycle Central. And that amount was approximately $3 million dollars.

Q. In particular, $3,200,550.50?
A. That's right.

Q. And there's also reference to "Unused Textile Program Funds." What was that about?
A. Yeah, that was a pilot program that we had done sometime earlier to measure and determine the viability and economics of collecting textiles from single-family homes. So those were funds that had not been used and we asked that they be repurposed for this project.

Q. And again, those were also Tier 3 and Tier 4 funds?
A. They were.

MR. BAKER: Exhibit 6 is a letter dated September 1, 2016, from Mr. Nuru to you, Mr. Arsenault,
one page.

I request the admission of Exhibit 6.

MR. PRADHAN: Exhibit 6 is moved into evidence.

(Exhibit 6, "September 1, 2016 letter [Recology]," was admitted into evidence.)

BY MR. BAKER:

Q. Mr. Arsenault, this is a letter you got from Mr. Nuru?

A. Yes.

Q. And in this letter he approves the requests that you had made in your August 25th letter, Exhibit 5?

A. Yes.

Q. So the letter indicates that he approves both the $3,200,550.50 and also the remaining balance in the textile diversion program; correct?

A. Yes, that's correct.

Q. So with the approval of these Tier 3 and 4 funds, did that cover all the costs of the Pier 96 upgrades?

A. It did not. There was a remaining shortfall of $2.1 million dollars.

Q. And with the $2.1 million, does that bring you up to the initial proposal of $11,299,920 dollars?

A. It does.
Q. And that's the original proposal we saw in the December 2015 document, Exhibit 3; correct?
A. Yes.
Q. So where does Recology propose to -- how does Recology propose to address that final shortfall?
A. We are seeking approval for the Tier 3 and 4 funding from '16/17. When it becomes available, it's anticipated that it will not be achieved again by this July; so we are anticipating that and looking to source those funds to complete the payment of the project.
Q. If Recology fails to meet the Tier 3 and Tier 4 targets for this current rate year, will that final funding for the Pier 96 upgrades exhaust all of those remaining Tier 3 and 4 funds?
A. It will not. There will be an anticipated balance of approximately a million dollars that we're also seeking in this rate application to be used for some final improvements to Recycle Central that will be important again for the facility to operate at peak performance.
Q. And Mr. Quillen will describe those --
A. He will.
Q. -- next.
All right. Let's talk now about the Special Reserve Fund and the new Reserve Fund. What is the
Special Reserve Fund? And how does that differ from the new Reserve Fund?

A. The Special Reserve Fund is a fund that was funded through the ratepayers with a 1% surcharge, if you will, for environmental issues or other issues that may have occurred throughout the life of the Altamont Landfill agreement. And when that contract concluded, there was a very large balance in that reserve fund that was then -- that's the Special Reserve Fund. So that came to an end with the end of that contract.

Q. Do you remember approximately how much was in that Special Reserve Fund at the time?

A. Approximately $30 million.

Q. So that was at the beginning of 2016, as you indicated earlier, when the Altamont contract with Waste Management concluded?

A. That's right.

Q. And what is the new Reserve Fund?

A. The new Reserve Fund is essentially a similar reserve fund, if you will, for the new landfill location, and it's been described through the hearing process that it ultimately grow to a dollar amount -- approximately $10 million dollars, but over time. So a portion of the new Reserve Fund was funded through the Special Reserve Fund, and then the other monies were set
aside continuing within the Special Reserve Fund.

MR. BAKER: So the new Reserve Fund is a subject of the new landfill agreement between Recology Hay Road and the City, and we will at another hearing offer that into evidence because that should be part of the record because it does establish the new Reserve Fund.

The application of the moneys from the Altamont Special Reserve Fund has been the subject of two rate board proceedings, one in 2015 and one in 2016; so I wanted to now just offer those into the record so that we have that.

Ms. Pearce reminds me that I left out one document going back to the Zero Waste Incentive accounts, so let me offer that into evidence.

Exhibit 7 is a three-page letter dated February 15th, 2017, from you, Mr. Arsenault, to Mr. Nuru. And I'd like to offer that into evidence.

MR. PRADHAN: Moved into evidence.

(Exhibit 7, "February 15, 2017 letter [Recology]," was admitted into evidence.)

BY MR. BAKER:

Q. You mentioned earlier, Mr. Arsenault, about the approximately $1.1 million that you anticipate will be remaining in the Tier 3 and Tier 4 for the current
rate year after application of funds to complete payment
for Pier 96; is that right?

A. That's right.

Q. Is this letter the letter in which Recology
proposes uses for that fund -- for that remaining
$1.1 million?

A. Yes. It describes in some detail additional
equipment.

MR. BAKER: So now let's go back to the
Special Reserve.

So Exhibit 8 is an order of the Rate Board
dated December 16, 2015, four pages long.
And then Exhibit 9 is a letter dated
October 30th, 2015, to the Rate Board with attachments
in the entire exhibit, which I think is fourteen pages
long.

So I'd ask that Exhibits 8 and 9 be admitted
into evidence.

MR. PRADHAN: Exhibits 8 and 9 will be moved
into evidence.

(Exhibit 8, "December 16, 2015 letter
[Recology]," was admitted into evidence.)
(Exhibit 9, "October 30, 2015 letter
[Recology]," was admitted into evidence.)
BY MR. BAKER:

Q. Now, let's look at Exhibit 8. We'll look at these documents just briefly, but let's look at this exhibit for a second. This is the order of the Rate Board. And if you look at page 3, at the bottom of the page starting at line 17, it talks about the Rate Board concurring with the Department of Environment's proposal that $1.25 million be transferred to the new Reserve Fund that you mentioned earlier, resulting from the new landfill agreement; and that $12 million dollars be used to cover the "incremental costs of hauling and disposing of city waste under the Landfill Disposal Agreement."

Can you tell us a little bit about this $12 million dollars and what was the reason for that request and that transfer as far as Recology was concerned?

A. Yes. With the new landfill agreement there were added expenses. And so -- and there was not an opportunity at that time to go through the rate application; so we had postponed that rate application in lieu of being able to utilize these Reserve Funds to offset the need for a rate increase at that time.

Q. So by June 30 of this year, those reserve funds will have been used for the incremental costs of the new landfill agreement?
A. Yes.

Q. And that's one of the reasons that you've described earlier why Recology is asking for a rate adjustment; correct?

A. Correct.

Q. And then Exhibit 9, is that the presentation that the Department of Public Works and the Department of the Environment made to the Rate Board for the hearing and then the order that is marked as Exhibit 8?

A. Yes.

MR. PRADHAN: Counsel, it looks like there may be some pages missing from Exhibit 9.

MR. BAKER: Really?

MR. PRADHAN: So you might at a later point -- we ask that you submit a full copy and then we can refer to that as Exhibit No. 9.

MR. BAKER: Thank you. We will take care of that. Sorry about that. There's really important stuff that we have in there.

MR. PRADHAN: Thank you.

MS. DAWSON: Strike that.

MR. BAKER: Exhibit 10 is an order of the Rate Board dated August 16, 2016, a three-page document.

And then Exhibit 11, a two-page document dated June 24, 2016, from the San Francisco Environment to the
Rate Board.

So I ask that Exhibits 10 and 11 be admitted into evidence.

MR. PRADHAN: Yes. Admitted into evidence, Exhibits 10 and 11.

(Exhibit 10, "August 16, 2016 letter [Recology]," was admitted into evidence.)
(Exhibit 11, "June 24, 2016 letter [Recology]," was admitted into evidence.)

BY MR. BAKER:

Q. If you can look, Mr. Arsenault, at Exhibit 10, and in particular on the third page. First there's paragraph 3, starting on line 11, which says:

"The Rate Board concurs with the Department of the Environment's proposed distribution from the Special Reserve Fund which the transfer of an additional $2.5 million from the Special Reserve Fund into the new Reserve Fund."

But then going down to paragraph 4, it says:

"The Rate Board orders that the remaining balance of $13.85 million be retained in the existing Special Reserve Fund until such time as the Rate Board determines that there is no need for the fund, at which time the remaining
monies must be used to the benefit of ratepayers."

So my question is does this application propose a use for the remaining balance which was then $13.85 million?

A. Yes.

Q. And what use has been proposed?

A. To help offset the rates.

Q. And how, in particular?

A. Over a series of years in this application, starting with 2018, the $2.5 million dollar use of those funds.

Q. So is that depicted on one of the pages in your workshop presentation?

A. It is.

Q. And it's the second to last page, I think, of Exhibit 2; correct? Do you have that there?

A. Yes, it is. I have it, I have it.

Q. So tell us in particular what the proposal is with regard to the Special Reserve.

A. With regard to the Special Reserve on the proposal, it's to utilize the $2.5 million dollars in rate year 2018, which takes effect July of '17. And then in subsequent years '19 and '20, another $2 million dollars again in each of those years.
Q. And that would still leave a balance remaining in the Special Reserve Fund; correct?

A. It will.

Q. And what is the proposal with regard to those monies?

A. I believe that's to be determined still.

I think there was a period of time that needed to elapse before that system changed.

Q. But in any event, is the ultimate destination for those funds proposed to be the New Reserve Fund?

A. Yes, I believe so.

MR. BAKER: Again, Mr. Porter will go into those with a little more detail. That's an excellent overview to get us started. That all the questions I have for you.

THE WITNESS: Thank you.

MR. BAKER: And I understand you may want to reserve cross-examination till later, but obviously he's here now if anybody has any questions.

DIRECTOR NURU: We'll reserve questions.

MS. DAWSON: Actually, I have some questions. Good morning, everyone.

CROSS-EXAMINATION

BY MS. DAWSON:

Q. Okay. Mr. Arsenault, I'd like to ask a few
followup questions first about the Special Reserve Fund, since we were just talking about it, for the benefit of making people understand since having two Special Reserve Funds is a little bit confusing.

So the proposed use of the old Special Reserve Fund, which in effect is going over to the new Reserve Fund, can you give us a sense of what the benefit is of using the old fund balance in this way or some conditions in the new landfill agreement on the creation of the new Special Reserve?

Can you speak more on that?

A. Certainly. So I'd like to say the naming convention gets a little confusing, but the old reserve fund for the Altamont Landfill is known as the "Special Reserve Fund." It had a balance of $30 million dollars. So in closing down that contract, a portion of those funds were to be retained for a period of the time to make sure there weren't any claims against those funds.

A portion then of those funds, roughly -- I believe it ultimately at that point started at $1.25 and I think it ultimately grew to $4 million dollars -- was then placed into what is called the "Reserve Fund," which is a similar need and a use for those funds under the new landfill agreement, the Hay Road landfill agreement -- the conditions being that that reserve fund
would grow to approximately $10 million dollars over a
period of time.

The need for those funds is to have
potentially as a rainy day fund. If some sort of an
environmental issue was to occur where those funds were
needed, it wouldn't have to go through a rate process;
those funds could be used to offset that kind of special
event.

And so then there's still a balance in that
fund. There is not an anticipated need for more than
what was approved, so those funds are anticipated to be
returned to the ratepayers.

Q. So in the new landfill agreement there's a
requirement for a surcharge, or at least the ability to
assess a surcharge. So under your proposal, are you
going be using that 1% surcharge that's specified in the
new landfill agreement?

A. No.

Q. And the proposal that you are doing where
you're transferring over time -- you were alluding to
it, but I just wanted you to clarify this for the
benefit of the public. As you use the new landfill
agreement, you have relatively low tonnage and over time
that tonnage increases. At the same time, the statute
of limitation is running on the potential risks involved
with the old landfill agreement.

So is it fair to say that your proposal addresses those two balancing differences by leaving funds in the old Special Reserve, and as the statute of limitation approaches its end, the remaining balance of the old reserve fund is going down while the balance of the new reserve fund is going up?

A. You described it very accurately.

Q. Thank you.

And you've alluded to -- but just to be very clear, so in effect what you're doing with the Special Reserve Fund is offsetting your revenue requirement; so you're using it to the benefit of the ratepayers?

A. That's correct.

MS. DAWSON: I don't have any further questions about the Special Reserve.

THE WITNESS: Okay, thank you.

(Mr. Arsenault steps down from the witness stand.)

DIRECTOR NURU: Do you have another?

MR. BAKER: We can.

What time were you going to take the morning break?

DIRECTOR NURU: Probably now is a good time, so 10:01. So can everyone be back at 10:15.
Oh, our Ratepayer Advocate wants to say something.

MR. JONES: Sorry, Director. I just want to get on public record that I too reserve the right to cross-examine at a later date.

DIRECTOR NURU: Do you wish to --

MR. JONES: No. I wish to reserve the right to do it a little later pursuant to the questions and the feedback from the community.

DIRECTOR NURU: Okay, thank you.

So we will take a 15 minute break. It's 10 o'clock now, so we'll resume at 10:15 and we'll continue our hearing.

(Off the record at 10:01 a.m.)

(On the record at 10:17 a.m.)

DIRECTOR NURU: Okay, if we can get back in session. The City representatives would like to continue cross-examination of Mr. Arsenault.

(Mr. Arsenault steps up to the witness stand.)

MS. DAWSON: So I've requested that Mr. Arsenault stay up here a little while longer because I have some questions on tonnage and I have the first City exhibit, which is the tonnage overview. It is actually similar but not, unfortunately, identical to the presentation that has already been entered in --
I think it's Exhibit 2 from the technical workshop. So just for the benefit of having all the information here, I'm going to go ahead and ask that this be entered into the record.

What number are we on, 12?

MR. PRADHAN: 12.

(Exhibit 12, "Tonnage Overview [City]," was admitted into evidence.)

BY MS. DAWSON:

Q. So we have slightly different versions. So at the technical workshop on the 28th, your presentation, Mr. Arsenault, included a page entitled "Tonnage Overview," which I've just entered into the record.

Can you confirm that this information provided by Recology that the "Rate Year 2018" column is consistent with the application?

A. I believe so. John Porter can speak to that more accurately.

Q. Okay. And can you explain what type of tonnage is included in the "Other" category?

A. Yes. The other categories would include materials from the Abandoned Waste Program, from Public Works. Essentially, other materials that are collected outside of our regular collection.

Q. So looking at the total tonnage, there appears
to be a slow but steady growth from year to year with an overall increase of about 6% over the five-year period. In that same period, compostables, which we also call the "green bin," have grown by about 7% while recyclables, the "blue bin," has actually declined a little bit since 2013. And each of these streams represents about 20% of inbound tonnage.

So in Rate Year 2018, waste or the material in the black bin represents about 32% of the total inbound tonnage. And based on waste characterization studies, Recology's determined that a significant portion of these materials currently being discarded is either recyclable or compostable, as you mentioned earlier.

Can you give me an estimate about how much of that you think is recoverable?

A. Yes. Of the trash, we believe that approximately 50% of it, first of all, there's no possible useful purpose of it at this point. And then the remaining 50%, it roughly breaks down to 30% compostable, 10% plastic, and another 15-20% recyclables.

Q. Okay. About 30% organics, 10% recyclables, 10% percent film plastic?

A. Yes.

Q. Okay. So trash waste represents about
850 tons per day. I notice it's a six-day work week; is that about correct?

A. So that's just the black material.

Q. Right.

A. That's not all the trash that goes through the transfer station.

Q. So you mentioned earlier Recology's running a test program to process black bin materials, and that the OREX press is able to recover right now about 10% of the processed material which kind of creates a paste that you are sending to East Bay MUD.

A. Yes. We've had a fair amount of experience with that equipment already. That's been proven now to be the case.

Q. So the rate application extends the PUC's program that you are currently doing to process about 100 tons per day through this OREX press?

A. That's correct.

Q. And then the remaining portion, like you were mentioning the "overs" earlier, would be -- some portion of it would be sent to Recycle Central where you had estimated about 15 tons of those materials might be able to recovered?

A. Correct.

Q. So in total you're proposing to process about
10% of the total waste stream?
A. Yes.
Q. And achieve 25% diversion?
A. Yes.
Q. So I'm jumping ahead a little bit because this may be more appropriate for Mr. Maurice Quillen as it relates to Contingent Schedule II, but I know we're going to be talking about that later and there's the assumption that it's going to handle a certain amount of tonnage. And right now I have -- according to your application -- that it's about 1,100 tons a day.
So am I correct that this new trash processing facility is capable of handling -- trying to process all of the inbound trash?
A. Yes.
Q. And it would capture about 25% of the waste stream as recoverable material?
A. Yes. It's -- it's not anticipated to follow the same exact process as the pilot program that's within the schedule, so we don't anticipate scaling the operation to produce the paste with this contingent schedule. We do anticipate generating a large volume or a similarly large volume of organic material, more of a fraction that doesn't get compressed under high pressure. But the final processing of that material has
not yet been determined. We would have to go through again.

Q. And so when we look at that, how close does that fit San Francisco to our goal of zero waste?

A. Well again, if there is a suitable solution for that organic material. It still is anticipated to recover more than 50% of the material. Meghan Butler will be speaking to that. She has the details on the waste characterization of that trash and she'll fill you in on more of the detail in terms of what the constituents and products of that waste are.

MS. DAWSON: Great. I reserve the right that I may ask you additional questions later on. But for now, that's the all the questions I have.

THE WITNESS: Thank you.

(Mr. Arsenault steps down from the witness stand.)

DIRECTOR NURU: Did you want to bring up another?

MR. BAKER: Yes. Maurice Quillen, please.

(Mr. Quillen steps up to the witness stand.)

MR. BAKER: Before Mr. Quillen begins his testimony, I mentioned the landfill agreement and the 2013 Director's report. And we have them here, so why don't we go ahead and for housekeeping purposes get
MAURICE QUILLEN,

having first been duly sworn, was
examined and testified as follows:

MR. BAKER: We marked four exhibits, so I'll
just say what they are for the record.

Exhibit 13 is the Landfill Disposal Agreement
between the City and County of San Francisco and
Recology San Francisco. It is a 34-page agreement
with -- looks like four attachments.

Exhibit 14 is the first amendment to that
landfill agreement, which is dated May one, 2016. It is
three pages long.

15 is the Director's Report and Recommended
Orders for the 2013 rate application from Recology
San Francisco and Recology of Sunset Scavenger and
Recology Golden Gate dated June 7, 2013. 40 pages long.

And finally, Exhibit 16 is the order of the
Rate Board, the Refuse Collection and Disposal Rate
Board, dated July 23rd, 2013, which is seven pages long
and has one page attached at the end.

So we would ask that those four exhibits be
admitted into evidence.

MR. PRADHAN: Exhibits 13 through 16 have been
moved into evidence.
(Exhibit 13, "Landfill Disposal Agreement [Recology]," was admitted into evidence.)
(Exhibit 14, "Landfill Disposal Agreement First Amendment [Recology]," was admitted into evidence.)
(Exhibit 15, "Director's Report and Recommended Orders, 2013 Rate Application [Recology]," was admitted into evidence.)
(Exhibit 16, "C&CSF Refuse Collection & Disposal Rate Board 2013 Resolution and Order [Recology]," was admitted into evidence.)

MR. BAKER: Thank you.

DIRECT EXAMINATION

BY MR. BAKER:

Q. Mr. Quillen, could you please state your full name.

A. My name is Maurice Quillen.

Q. What's your job at Recology?

A. I'm the General Manager of Recology San Francisco.

Q. How long have you had this job?

A. Approximately two-and-a-half years.

Q. What did you do for Recology before that?

A. I managed the collection company Golden Gate Disposal and, for a short time, the combined operation
of Golden Gate Disposal and Sunset.

Q. When did you start work for the Company?
A. Started with Recology -- it was Cal Waste Systems back in 1992.

Q. And how long were you General Manager for one or more of the collection companies?
A. I've been the General Manager for Recology for almost 18 years in some fashion.

Q. Now, let's focus on your current job, Recology San Francisco General Manager, and the upgrades to Pier 96. We've heard a little bit about that from Ms. Arsenault. When was that work completed and when did the new equipment start operating?
A. The work for the modifications of the Recycle Central facility was completed in September 2016. The facility became fully operational in October 2016.

Q. So as we've heard, most of the cost of that project was covered by Tier 3/Tier 4 Zero Waste Fund; is that right?
A. Correct.

Q. And this application seeks approval for the final truncheon of money required to pay for that facility completely; correct?
A. Yes, it does.

Q. So I don't want to go into a lot of detail on
this because it's in the application, but tell us why
Recology wanted to and needed to upgrade Pier 96.

A. The recycling facility on Pier 96 was issued
in operation in 2002. At that time it represented
state-of-the-art technology for singling the curbside
processing material. And over the years, technology
innovation has changed quite a bit of the industry.
The facility was initially designed to operate above the
30- to 35-ton-per-hour range, and that facility served
us well for many years.

As time progressed and the tonnage -- curbside
program increased, the facility became quite old and it
started to seek useful life. The decision was made to
pursue an option to rebuild or retrofit or replace the
facility. After exploring all the options, we
determined that it would be best to rely on some of the
existing processing equipment but place a new front-end
system on the old set of equipment in order to increase
the throughput of the facility and allows us to process
more material and keep up with the technology that's
present in the industry today.

Q. To what extent has the new equipment allowed
you to increase the throughput?

A. The new facility is designed for
45-ton-per-hour throughput. And in addition to higher
throughput, it also has a substantially better diversion rate. The technology that was present in the first iteration sorted down to about a two-inch size piece. The new technology is actually fairly robust, and through the use of optical systems and pneumatics, we can sort tiny little bits of paper including shredded paper.

Q. Are there materials that you can now capture in the system that you could not capture before?
A. Yes. The old system relied on fairly small presort. We had four sorting stations and a number of commodities we could sort. The new system allows for a 14-person, 7-position re-sort, and we have the ability to manually sort significantly more materials. Specifically we can recover textiles, film plastic, and aseptic packaging.

Q. "Aseptic" being A-S-E-P-T-I-C?
A. Correct.
Q. What is aseptic packaging?
A. Aseptic packaging are the Gable tops or laminated food containers, milk containers, some of the fruit juices, buy-in-the-box products, things of that nature.

Q. That means that customers in San Francisco are going to be able to put these sorts of materials in the
food bins now, which they were technically supposed to
do before?
    A. Yes.
    Q. And is that happening right away? Or is there
going to be some sort of education system first to get
it underway?
    A. We need to educate the customers so that they
understand what products are going to be acceptable in
the curbside bins. The intention would be to perform
that education along with the rollout of the new
recycling program -- or the new cart program, actually.
    Q. So is this film plastic, plastic bags, one of
the commodities that you're now going to be able to
capture?
    A. Yes.
    Q. Now, that's one of the big problems with
black bin/blue pin material -- has been, is the
prevalence of plastic bags; correct?
    A. Yes.
    Q. And the City actually has an ordinance to try
to address that issue, but you can't get rid of all them
altogether. Tell us a little bit about that, just for
educational purposes -- a clean plastic bag versus a
soiled plastic bag, and what you're going to try to do
in order to maximize the recyclability, if that's a
word, on that kind of material.

A. Recology has the ability to market mixed MRF filling, provided it's clean. And the biggest challenge presented to us in any waste environment is sourcing clean film plastic; so we would like to request that the program participants take the clean film and place it into a plastic bag. The plastic bag would then go into the blue bin. From there, it would come into our facility and go across the sorting table and we'd provide a pneumatic system to allow sorters to manually sort clean film plastic into a recovery system which would then allow us to segregate that material for baling.

MR. BAKER: Can I get the computer up, please.

BY MR. BAKER:

Q. What's this a picture of?

A. This is a picture of the sorting table in front of the MRF. You have the sorting belt, as we call it, or the deck. The unsorted curbside material goes across. The sorters are sitting on either side of the belt. They have the ability to essentially sort three commodities per person.

To the left, they have the ability to put material into the chute which would then go into a hopper and be sent to the market. At the center of the
sorting table are these green tubes; they represent the plastic recycling system. The sorters simply have to put the plastic bag up to the system to be packaged away in the holding hopper for baling.

And to the right is another hopper that they can put additional material into.

Q. Textile is another type of material that you're now able to recover; is that right?
A. There are markets for textiles. But in a similar fashion to the MRF film plastic, they need to be dry and clean.

Q. And is this going to be part of the customer's education system as part of this rollout?
A. It was our intention to be able to recover textiles as part of this new program, and we provided for multiple sorting locations on the line for the sorters to pull textiles from for recycling.

Q. And how many -- you said there were four sort locations with the prior equipment?
A. Yes, correct.

Q. And you say now there's seven stations, fourteen locations?
A. Correct.

Q. So it's kind of obvious, but why don't you explain a little bit the advantages of having more
sorter stations.

A. Well, in the initial system, the original design in 2000 was really designed for a different type of waste stream. Recyclables had quite a bit of waste stream; so the four-sort presentation was acceptable. They focused on pulling out moldy trash and things that would damage the equipment. And as time progressed, the sorters started to focus or began to focus on pulling out cardboard because the cardboard was quite problematic for the system.

The new sorter obviously gives us much more flexibility. With the seven positions, every sorter has the ability to sort a few commodities. So generally, all of these units on the sort line can sort trash. They can also sort the mixed MRF film. They'll also have the ability to recover textiles, wood, metal, and large rigid plastic items.

Q. Again, items that were not officially recyclable before?

A. Correct.

Q. And Mr. Arsenault mentioned about the increasing prevalence of cardboard. What is it about the new equipment that improves the handling of the cardboard?

A. The MRF rebuild contemplated the waste stream
and we installed a cardboard screen, which we call an OCC screen. It's a purpose-built piece of equipment designed to extract cardboard from the single-screen mix prior to it running with the rest of it, eliminating the requirement of the presorters to identify and sort cardboard.

Q. And you also mentioned the ability to capture and sort paper -- fiber material on a more efficient basis in smaller pieces. Describe what equipment you have that facilitates that work.

A. We have a series of optical sorters and pneumatic sorters that essentially mechanically sort the material through optical recognition or, in the case of small bits of paper, a vacuum that literally sucks the bits of paper off the sorting belt.

Q. Have you -- has any equipment been in operation long enough for you to see any improvement in the percentage of material recovered?

A. Yes, it has.

Q. And what have you found?

A. We initially put this proposal together, submitted it to the Department of Public Works. On it, we knew that the new equipment would be able to stick with the diversion rates and we estimated that we would see somewhere between 5% to 7% additional recovery.
Since we've been operating the system, we've exceeded that number and we're seeing recovery in upwards of 10% additional recovery.

Q. And what was it before and what is it now?
A. We were trying to get about 83.1% diversion rate on average. And since the installation of the equipment, we're at about 91%.

MR. BAKER: Congratulations.

That's all the questions that I have of Mr. Quillen. I would like to put into evidence a few photos that we have of the new equipment.

I'll just -- once it's marked, I'll have them identify what the photos are for the record, and then I'll have no further questions.

So we've marked four photos of Pier 96, new equipment, as Exhibit 17.

I request that they be admitted into evidence.

MR. PRADHAN: Admitted.

(Exhibit 17, "Four photographs [Recology]," was admitted into evidence.)

BY MR. BAKER:

Q. So Mr. Quillen, just for identification, what's the first photo?
A. The first photo is a piece of equipment that's referred to as the drum feeder. It's the modern way of
loading a new MRF. Essentially, it's a large hopper the
loader fills full of material. And then there's a
spinning drum with knobs on it that opens up the bags
and crushes the material, making it easier for the
sorters to sort and also gives us a very even burden
path on the sorting deck, which maximizes our
efficiency.

Q. The second picture is one that we looked at
earlier, and you've already described that as showing
the presort line with the several sorting stations,
hoppers, et cetera; correct?

A. Correct.

Q. And then the third photo is a -- is what?

A. Third photo is one of the pneumatic drops for
the film plastic conveyance.

Q. So in other words, if you put any material
under that tube, it's vacuumed up; correct?

A. Correct.

Q. And it's intended for film plastic?

A. Yes.

Q. And then the last photo.

A. The last photo represents another view of the
presort installation. It's the sorting table to the
upper-right cardboard screen. To the lower right, the
tubes overhead represent the pneumatic mix of plastic.
And on the left-hand side of the photo is one of our fiber screens. Useful equipment. It's designed to separate the cans and bottles, glass, from the paper.

Q. Actually, I did want to ask you one other thing -- a couple of things I forgot.

First of all, the prior equipment -- that is, the sorting equipment that existed before this new equipment was put into operation -- is the prior equipment still being used?

A. The prior equipment is still in place. We're maintaining the equipment as a backup. At this point we only rely on the old equipment when the new equipment is down or being repaired.

Q. And Mr. Arsenault described that as part of this application, there is a request to use funds anticipated to be remaining from the Tier 3 and Tier 4 zero waste, approximately $1.21 million, for some additional improvements at Pier 96.

I don't know, do you have the exhibits up there? Did Mr. Arsenault take them?

A. I do not have the exhibits.

Q. Here. This is Exhibit 7. Mr. Pilpel provided his copy, so he won't be able to ask you questions.

What is -- is Exhibit 7 Recology's proposal for the use of the remaining $1.1 million?
A. Yes, it is.

Q. And describe for us briefly what the need is for the application of those funds and how they will relate to the existing equipment improvements.

A. Yes. So this proposal basically asks for four additional pieces of equipment. It's probably best to take them in order.

The first piece of equipment is the drum feeder. And while the old lines are still operational, we do rely on them as a backup. We have determined that one of the lines that we currently maintain as a backup is robust enough to actually serve as a primary backup facility in the event of a failure. Given the new waste stream we're proposing in the facility and our success with the drum feeder, we were thinking that we could retrofit the old hopper-style loading system associated with that line to a new, more modern drum feeder-style sorting system. So the first item, the drum feeder, contemplates installing a drum feeder onto what we call our "B-line" conveyor system.

Q. So basically that would allow the backup system to work for more efficiently?

A. Correct.

Q. And what about a "cross belt magnet"?

What's that needed for?
A. So the cross belt magnet is an additional piece of equipment that we do need to add to this installation. Cross belt magnets are essentially an electromagnet that sits across the sorting belt. The new system utilizes what we call "head pulley magnets," which is a magnet embedded in the pulley, and we use those magnets to extract metal and other items from the recyclables. They've proven to be very effective in some situations, but we're starting to learn that given the throughput of this facility, the head pulley magnet is not doing a very good job pulling some materials out of the glass and the paper. And the items that we're specifically having issues with now are C and D-size lead acid alkaline batteries. They tend to be a little heavier than what the magnet will be able to recover; so we are having some issues with those materials ending up in our finished products.

The cross belt magnet will be a much more robust magnet we would install to the system on a retrofit basis that would function as a backup to the pulley-driven magnets and get the larger batteries out of the material.

Q. And then what about the next item on Exhibit 7, "Container Silo Bypass System"?

A. One of the interesting things about our
recycling facility -- the design of our recycling facility is the ability to operate various components of the system independently of each other. Generally in MRF, a piece of equipment is down, the whole MRF has to stop operating. And part of our nine expectations for the facility was if something breaks, we wanted to be able to operate the MRF on a limited basis to process the tonnage.

And one of the things that was determined that was being omitted from this was the ability for us to bypass containers from the sorting belt into the silos in the event that there was a problem with the containers or in the system. So this proposes the installation of being able to bypass mechanisms to allow us a little bit of flexibility in the event that we have an equipment malfunction.

Q. So again, that would give you more operating time and less downtime?

A. It will give us -- it will take time to generally what would be considered downtime and make it "slightly less-productive operating time," effectively allowing us to still maintain adequate throughput numbers in the MRF.

Q. And then the last item here is the "Master Control System Upgrade."
A. Yeah. The Master Control System Upgrade, I think, is the most important part of the proposal. All the recycling equipment is essentially a series of electric motors that run off the Local Area Network, similar to computers, and they have drives associated with the motors. The drives work through a computer system and they let the system start and stop in a predetermined fashion.

Well, the new system and the old system obviously are very similar, but very different generations of what we call the "PLC," or control system. And they don't talk to each other very well, so what we have is the old system and the new system working off of what we call an "electronic handshake." Essentially the old system starts up and notifies the new system that everything's running and functional, and then the new system comes online.

And we determined that the time it takes for the new system and the old system to perform this handshake can be several minutes in some cases, such as if there's a fault. So we would like to replace the control system on the old system so that we would not longer have to function off of a handshake, but instead be able to bring the whole online at one time with one computer control system.
Another issue that we're facing is a little bit of obsolescence and that the frequency drives associated with the older system are getting to be very hard to get. It would make sense to upgrade the drives to the most modern available technology.

Q. So on page 2 of Exhibit 7 is a breakdown of the cost of each of these additional upgrades.
A. Yes.
Q. Totalling about $1.1 million dollars.
A. Correct.

MR. BAKER: So I have nothing further.
DIRECTOR NURU: I believe the City would like to cross-examine Mr. Quillen.

CROSS-EXAMINATION

BY MS. DAWSON:

Q. Good morning, Mr. Quillen.
So Recycle Central processes 25 tons per hour; correct?
A. Recycle Central processes approximately 35 to 40 tons per hour.
Q. And how many hours does it run a day?
A. We run the system in two eight-hour shifts. Generally the productive time on those shifts varies from six to seven hours, depending upon whether or not we've had any equipment malfunctions, breakdowns, things
of that sort.

Q. So if we kind of look at it, what would you
consider to be kind of the total average daily
processing tons -- tons per day that you manage given
all those potential limitations?

A. Right now, we process about 450 tons a day.

Q. And so how does that number compare to the
number of tons being delivered to Recycle Central right
now?

A. With the new equipment, we have the ability to
process all the tons that are delivered on a daily
basis, unless we have mechanical operation issues.

Q. Do you know how many tons you're currently
accepting per day on average?

A. It's currently about 450 to 500 tons a day
peak.

Q. Meaning that varies?

Seasonality, that sort of thing?

A. Seasonality. The weather has a lot to do with
it. It tends to be a bit heavier when it rains.

Q. So given what you just told me would suggest
that you don't have a lot of additional capacity in the
facility. Is that the case?

A. We have additional capacity with this
equipment. It's 45-ton-an-hour equipment and we're
running it lower than its capacity. So we do have the ability to accept more tons in the facility.

Q. Okay, so it sounds like I might have asked that question differently. It may be a little difficult.

So if you were running this facility at its full capacity, how much additional tonnage could you process?

A. In excess of 75 to a 100 tons a day.

Probability closer to 75.

We also have the ability to operate the equipment beyond the eight hours per day per shift. With the old system, we were running a little bit overtime, weekends, whatever we could to catch up. We needed to perform in order to get on track.

Q. Okay. So if we considered what the maximum would be in terms of both hours that you think would be reasonable in the facility and the capacity of the equipment, what's the total capacity that you think you have given the investments you've made at that location?

A. We actually got that number. That number is in our total. I'll refer to the rate application.

MR. BAKER: Maurice, make sure you speak into the mic.

THE WITNESS: I'll refer to the rate
application. Assuming 45 tons per hour throughput with a 14-hour operational day, just 7 tons. At 260 days per year, that 163,800 tons per year.

BY MS. DAWSON:

Q. And you're currently -- so that difference between what you're currently processing and what you could do at its maximum is --

A. The difference right now, we're doing about 39 to 40 tons an our; so we're about a 150,000 -- or 143- to 150,000 tons a year. So on an annual basis, nearly 90,000 tons of additional capacity.

Excuse me, 50,000 tons additional capacity.

MS. DAWSON: That's all the questions I have for right now.

MR. BAKER: We recognize that the ratepayer advocate wants to reserve questions. But to move things along, we understand that Ms. Dawson and Mr. Haley and Mr. Jones reserve the right to ask questions later.

MS. DAWSON: Thank you.

DIRECTOR NURU: So time-wise, we can bring another witness up.

MR. BAKER: We can start the next witness.

I don't think we'll finish, but we might as well get 15 minutes done, if you'd like.

DIRECTOR NURU: That would work, I think, for
1 us.

A show of hands, how many people want to make

a comment?

Okay. Let's bring up the next witness then.

MR. BAKER: So Dan Negron is the next witness.

And Carolyn Pearce will exam him.

(Mr. Quillen steps down from the witness

stand.)

DAN NEGRON,

having first been duly sworn, was

examined and testified as follows:

DIRECT EXAMINATION

BY MS. PEARCE:

Q. Good morning, Mr. Negron.

A. Good morning.

Q. Could you please state your position with

Recology company.

A. General Manager for Recology Sunset Scavenger.

Q. And if you could just briefly describe what

the Sunset Scavenger company is and its relationship

with the rest of the San Francisco companies.

A. Our sister company, our collection company

Recology Golden Gate mainly services the downtown area

and Marina. Sunset Scavenger has the remaining parts of

the city and some neighbors.
Q. It's a collection company?
A. Yes.
Q. And how long have you been with Recology?
A. Sixteen years.
Q. How long have you been in the role as General Manager of Sunset Scavenger?
A. Approximately two-and-a-half years.
Q. I understand as a part of Recology's 2017 rate application, it is proposing some changes to the way that collection companies conduct its residential collections. Could you please briefly describe those changes for me, if you could.
A. Yes. The system that exists today, as Mark alluded to earlier, the fantastic three-bin system that was rolled out in 2000. We're now proposing a new default system as far as the black, blue and green bin system as well as it, and that's more to capture what Maurice was talking about with all the upgrades that they've done at Recycle Central. We want the opportunity for our customers to start bringing in those materials in the blue bin and also encourage less disposal, less use of the trash black bin.
Q. Let me just interrupt one second.
When you say "new default system," what do you mean exactly by "default system"?
A. I'm sorry. For the bin sizes, we're going to be looking at increasing the blue containers to 64 gallons at the curbside along with introducing the 16 gallon reduced black bin.

Q. Okay. Continue.

A. In addition to that, in order to accept the more recyclables, the 64 gallon toter, we're going to be proposing repurposing our vehicles that the single-stream or single-chamber vehicles will now service the blue containers. And as a result of that, we're going to propose some rerouting of all of our three system collection vehicles.

Q. And can you just explain how that's changed from the current system.

A. So right the now collection vehicles are displayed by the chambers collecting the black and the blue bin. They've been doing that for 16-plus years. The single-chamber collection vehicles are picking up the organic materials.

And what we're proposing now is to move the blue bin to the single-chamber, for reasons I'll explain shortly, along with adding -- moving the organics materials with the split-body split chamber vehicle along with the black chamber.

Q. Let's start by discussing the bin changes
and sizes you mentioned and changes to some of the recyclables that will be accepted now at Recycle Central. What is the standard default service that's currently offered for single-family homes right now?
   A. So the standard default service 32 green, 32 black, and 32 blue.
   Q. Is this also the most commonly chosen size for residential customers?
   A. Yes, it is the most common.
   Q. Larger and smaller containers, though, are available if they'd like to those chose those?
   A. Yes, absolutely. Those customers can go up to 64 gallons if they choose.
   Q. And what's the new proposed default level of service for single-family homes?
   A. So we're look at a 16 gallon trash, a 64 gallon blue -- trash is black -- 64 gallon blue, and a 32 gallon green.
   Q. And why is it that Recology wants to offer or encourage a larger blue bin at the default level of service?
   A. It was talked about earlier in Mark's presentation. It's been a real challenge dealing with the cardboard, as far as the residential and just general in the city. They're bulky items. The bulky
cardboard has become a challenge not only with the
32 gallon bins, but also with our collection vehicles.
We're also -- to Maurice's point he's offered -- the
opportunity to process more materials at Recycle Central
at Pier 96. So adding those new materials including
film plastic, bags, textiles, small pieces of metal,
unpainted wood, those are things that we are proposing
to move into the single-chamber collection vehicles.

Q. Mr. Quillen mentioned some of these earlier,
but I wondered if you could just describe what are some
of the new materials that are going to be accepted in
the new bins?

A. We're looking at aseptic -- to Maurice's point
earlier -- Gable top, cartons, bags, textiles, bag from
plastics, and small pieces of metal, unpainted wood.

Q. How was it that Recology determined that a
smaller black bin as a default and a larger blue bin
would encourage more diversion from the landfill and be
an idea that it wanted to propose?

A. So we partnered with SF Environment and we did
some pilot programs, specifically three test programs
along with a control group, to really measure what was
out there, what type of behaviors we need to move to
folks to get them to do more recycling and more
diversion.
MS. PEARCE: I'm going to interrupt you for one minute.

I'm going to mark as an exhibit a 12-page document titled "Zero Waste Collection Test Summary Results."

Correct me if I'm wrong, I believe this is Exhibit 18.

MR. PRADHAN: Yes.

MS. PEARCE: And like I said, this is a 12-page exhibit entitled "Zero Waste Collection Test Summary Results," and we move the admission of this exhibit.

MR. PRADHAN: Admitted.

(Exhibit 18, "Zero Waste Collection Test Summary Results [Recology]," was admitted into evidence.)

BY MS. PEARCE:

Q. Mr. Negron, are you familiar with this document?

A. Yes.

Q. And tell us a little bit about what this is.

A. So again, we were working closely with SF Environment, and really, we brought in the Department of Public Health as well as SF Public Works. We had proposed and we ran three test pilots along with a
control group. We measured driving behavior towards diversion.

Q. And this document describes the tests that you conducted and the results from the tests; is that right?

A. Yes.

Q. And let's talk a little bit about the three tests that you mentioned. What are those three tests that you performed?

A. Initially, also with the one that has the less-desirable results, if you're okay with that, the control group was strictly just outreach -- constant outreach to a set number of customers in different neighborhoods to see if we can get them to just utilize the system that is in place today -- 32 black, 32 blue, 32 green. And it resulted in a phenomenal 2% increase in diversion.

Q. By "outreach," what do you mean by "outreach"?

A. An extensive amount of outreach. If you look at the summary, we worked closely with SFE as far as statement hangers. We sent outreach letters, we held community meetings, we provided goodie bags -- just to get the folks and encourage them to utilize the new system.

Q. So that was the control group.

Tell us about the three tests.
A. And then we went into what they call the "pay per setout." Because customers elect not to place their trash outside at least once, twice, sometimes three times a month, they also receive a weekly service for the blue and the green bin. However, that also reduced a phenomenal 2% increase in diversion. Again, with a heavy emphasis on outreach.

Q. That's called the "pay per setout" test?
A. Yes.

Q. Okay. And what was another test that you did?
A. The third test was what we call the "every other week collection," so biweekly service. And again, we continued to provide weekly service for the greens and the blues to encourage their usage. That was about 400 participants and that reduced about 11% diversion.

Q. All right. What was the final test?
A. The final test was the 10 gallon trash bin. We also identified about 400 customers in ten different parts of city neighborhoods. And they just basically had a smaller bin, although they still maintained their 32 black -- excuse me, 32 blue and 32 green bin. And that reduced not only a 14% diversion, but we're happy to see the compost bins are starting to come out on the curb.

So it's one thing when the customers have the
bin; it's another thing when they actually take the time to put it out on the curb and get service.

Q. I just want to make it clear on the record. You're referencing the result of those three tests and the control group on page 6 that shows the increase in diversion percentage by test; is that right?

A. Yes.

Q. Did you share the results of these tests with the City?

A. Yes. Well, we partnered with them from the beginning and did present the final results to SF Environment to really strategize the next steps in the process.

Q. And based on these results, how did you and the City decide on using -- proposing 16 gallon bins versus the 10 gallon bin, which I believe was used in the test?

A. Yes, the 16 gallon was brought for a couple reasons. Number one, we enjoyed the behavior and it definitely made a difference as far as diversion, and that was first and foremost. Operationally, as far as our drivers differ, ergonomically it was a big challenge because it's such a little container. Having it go up and down, up and down 300 to 400 times day was a challenge.
Also, it did hurt our equipment. They had to lift onto the lifter. And so if we were to adopt the 10 gallon system, we would have to add a cost. We'd have to retrofit the entire fleet, and it would be a challenge trying to retrofit that and also support these new bins in the inventory that's already sized 32/64/96.

Q. I'd like to discuss what the new bin sizes you're proposing will look like compared to the old size. So I'm going to try to show some pictures on here.

Is this what the current -- the 32/32/32 blue, green, and black looks like it's set out on the curb for collection?

A. Yes.

Q. And the next --

MR. PRADHAN: Are these photos part of an exhibit?

MS. PEARCE: I will -- I'll introduce them. Maybe I'll do that right now.

I'd like to mark Exhibit 19 and Exhibit 20, which will be pictures of the old setout and the new setout.

BY MS. PEARCE:

Q. Let me just ask you about the next photo I'm going to show.
Is that a picture of the new proposed default setout of the 64 gallon blue bin, 32 gallon green bin, and the 16 gallon black bin?

A. Yes.

MS. PEARCE: Move for the admission of Exhibits 19 and 20.

MR. PRADHAN: Admitted.

(Exhibit 19, "Photograph, old setout [Recology]," was admitted into evidence.)

(Exhibit 20, "Photograph, new setout [Recology]," was admitted into evidence.)

BY MS. PEARCE:

Q. All right. I'm actually going to put up just a comparison, side-by-side.

I'm sure you're aware that in San Francisco many of your customers are concerned about the space constraints and accessibility; so I'd like you to discuss how the footprint of these new default bins will be different from the old default.

A. So -- and I took the photo just as a reference to the yellow lines, the parking lines. But basically the 16 gallon trash bin is identical as far as the size of the 32. And then the 64 gallon, it only grows approximately 14 inches wide and a little bit taller. But these --
Q.  14 inches?
A.  Did I say fourteen? No, I mean four inches. And so the 64 gallon, as you notice -- and these are designed specifically for San Francisco. The manufacturer, because of the narrow entryways and the downhills that we have to service, it fits nicely here in our service area.

Q.  The 64 gallon blue, will that still fit between gates and doorways?
A.  Absolutely.

Q.  What if a customer is not -- doesn't have the space for a larger blue bin? Will a customer have the option to choose a different size if they'd like?
A.  Absolutely. If the 64 gallon blue does become a problem as far as space, we'll be glad to return it back to a 32 gallon blue.

Q.  If a customer does go from the default -- the current default service which is the 32/32/32 and chooses the 16 gallon black along with the 64 gallon blue and the 32 gallon green, how will their volumetric service change from the prior service?
A.  So they're actually gaining 16 gallons in volume. Although the trash is reduced by half of 32 to 16, the blue containers are going to double in size volumetrically from 32 to 64, and then that effect is a
16-gallon increase in volume.

Q. Is it over all service?
A. Yes.

Q. You mentioned that this default change or proposed change is to the default service for single-family homes. What about multi-family homes, apartments, commercial customers? Are there any operational changes that Recology's proposing for those customers?
A. Commercial changes we're not going to propose. However, we are going to do an extensive outreach for all three of those types of service. Paul Cesewski who's in the back there will be handling all of the outreach as far as reaching out to all of our customers.

Q. We'll hear from Mr. Cesewski next week.

Recology is also proposing -- and you mentioned this earlier -- in its application some changes to the way the vehicles -- the materials that the vehicles collect. You said that, I think, the split-chamber vehicles certainly collect the black and the green bin together and -- I'm sorry, the black and blue materials together, and the green bin is collected separately in a single-chamber vehicle. Has this approach posed any challenges for Recology?
A. It's become a big problem. We talked about it...
in the past as far as the type of materials that we're collecting today versus 16 years ago. So the nature of the recyclables -- and one is them is Amazon.com -- has just become a big challenge. And the big screen TVs, there are no more small TVs. Everybody buys a minimum 60-inch or better and it always end up at the curb wherever you're at. It's also a big challenge with our apartments. Generally speaking, cardboard is a real issue in San Francisco.

Q. You alluded to it earlier, but if you could just explain what are the changes that Recology's proposing as far as the collection trucks, to address those issues.

A. So by moving, we're organizing to move all of the blue material into single-chamber collection vehicles. These are much larger in size, and this is the existing equipment. And our crews will be able to increase their payloads enough to make a difference as far as any increases in tonnages that we're going to realize not only on changing the behavior but also what we're doing at Pier 96 and Recycle Central, the additional items.

MS. PEARCE: I'm going to mark another exhibit, 21.

This is a slide with two pictures showing a
split-chamber versus the single-chamber trucks.

BY MS. PEARCE:

Q. And if you could, just tell me what this slide depicts.

A. This is a challenging problem that we face every day. The picture on the left is what we call the "split-chamber," so the hopper size the only 3 feet by 2 1/2 feet. And as you can see, the materials — my guys spent a considerable amount of time trying to cut down and get this packed in the truck.

If you notice on the right, with the single-chamber vehicles that currently exist today, we can easily take on this material and get containerized. We have some litter issues, as far as loose litter around the city; so cardboard challenges will definitely be dealt with by the single-chamber vehicles.

MS. PEARCE: Let's move the admission of Exhibit 21.

MR. PRADHAN: Admitted.

(Exhibit 21, "Photographs, split chamber vs. single chamber [Recology]," was admitted into evidence.)

BY MS. PEARCE:

Q. And just to make things clear, this is the
hopper on the left of the split-chamber collection vehicles. A little hard to see, but the recycling is, I guess, collected on the left side of that hopper; is that right?

A. Based on -- it's a 50/50 body. So right now the picture is just showing for picture purposes that we would have to try to push that material in that small hopper. It's kind of hard to see because on that wall there's a flipper there, and so it doesn't allow the garbage to go on the opposite side.

But again, it is a big problem. The way we mitigate this today, and we talked about it a little earlier, on these types of customers we actually utilize our compost routes to just kind of go through. It's not best and high use for the materials. We still compost it, but we prefer it be put in a single-chamber truck and just send it over to Recycle Central.

Q. The cardboard can be picked up by a compost truck?

A. Right. One way or the other, we're going get the stuff off the streets. And we end up utilizing --

 augmenting our collection fleet to have organic materials picked up and send it to the organics building. But that itself is a challenge.

Q. Did you do any tests to evaluate the
effectiveness of your new proposed approach to use the
single-chamber vehicles to collect recyclables?

A. Yes.

Q. Tell us about that.

A. You mean the --

Q. Tell us what you did to assess whether it
would work to have recyclables collected by a
single-chamber vehicle instead of a split-chamber
vehicle.

A. After our tests had completed, we identified
approximately 12 width-body collection routes in the
Sunset District, which is heavy residential; so that
would give us a good feel. We immediately started
pickup the materials in a split-body with the black and
the green. But we also had to add blue recycling routes
in order to augment what we described earlier was
significant more stops. Because on the blue side,
there's 95% participation from all of our customers.

Q. By "participation," you mean almost everybody
puts out their blue bins, but not everybody puts out
their green bins. Is that what you mean by
"participation"?

A. That is correct.

Q. And so currently the single-chamber vehicles
that are collecting green bin materials, they don't need
to stop at every home; is that right?

A. No. Right now the drivers are experiencing every three homes, two homes, they're putting out sort of a two-to-three ratio.

Q. -- are putting out the green bins?

A. Correct.

DIRECTOR NURU: We're close to the breaking point. Now might be a good place to stop. Our ratepayer advocate would like to do their presentation, and it look like we might focus on --

MS. PEARCE: Absolutely. That sounds good.

Thank you.

DIRECTOR NURU: We may call the ratepayer advocate to come up.

(Mr. Negron steps down from the witness stand.)

STATEMENT BY THE RATEPAYER ADVOCATE

MR. JONES: Good morning. My name is Dwayne Jones, the San Francisco ratepayer advocate.

Good morning, Director Nuru. Again, in the essence of time, I will speed up this presentation.

MR. RODIS: Good morning, sir. Just mention your name for the record and I'll swear you in.

MR. JONES: Dwayne Jones, ratepayer advocate.

MR. RODIS: Thank you, sir.
DWAYNE JONES,

having first been duly sworn, testified as follows:

MR. JONES: All right, Mr. Nuru.

So again as I was indicating, I am the assigned ratepayer advocate. And what I want to do is kind of walk through kind of our role and responsibilities pursuant to the rate application moving forward.

So our primary role is to ensure that we're increasing the awareness about the refuse rate application that has been submitted by Recology and the approval process through a citywide outreach strategy. So for the past four months, we've been going through and developing an outreach and communication plan, and making sure that we actually had a strategy in identifying folks that represented the diversity of San Francisco; to ensure that we had cross-representation that every resident that has any questions or concerns in getting involved in this process and hearing about this process had an opportunity to do so.

Therefore, we have encouraged community members to voice their input at formal hearings -- for example, like this one here -- and contacting them. And so there's been a variety of ways that folks have been
contacting us over the last several months via e-mail, via social media, and many of the community meetings that we've had over the last several months.

The primary intent is to be here to represent the public interest and ensuring their concerns are addressed at these respective hearings. And so again, as you indicated earlier, I will be in all of these hearings making sure that their voices and interests and concerns are heard.

The methods of outreach that we've engaged thus far, we are continually open to new and creative ideas about how to further that reach. But currently we hope that the series of community presentations at neighborhood and homeowner associations, community advisory groups, neighborhood centers, community-based organizations, police precincts, safe community meetings, small-town equal advocacy, print media, social media, community newsletters, and e-mail blasts to various organizations and Listservs and things of that nature.

What I'd like to do now is turn it over to -- my core staff is doing many of these meetings, Director, to speak more to the detailed outreach plan and things that we've been hearing thus far; so I'd like to start with my staff, Rosie.
MS. DILGER: Hi. I'm Rosie Dilger.

ROSIE DILGER,

having first been duly sworn, testified as follows:

MS. DILGER: All right. For our outreach update, so far we have reached out and done community presentations throughout all 11 districts in San Francisco. So far we've completed 36 at different community groups -- community meetings, and we have an additional 15 on the books and we're continuing to schedule more as we go. And we notified and outreached over 140 community organizations, neighborhood groups, merchant associations, and other organized groups in the city.

So far we're going to give just a brief overview of the feedback we've gotten. I'd say the most common things that we're hearing are binning size and minimum pickup requirements. Additionally, a lot of questions about district studies and pilot programs, basically, which has been very helpful; the disproportionate access coverage for seniors and people with fixed income; enforcement of current policies and those that are displeased with their current service; the general increase to the cost of living; and the frequency and amounts of the rate increases.

Additionally, we have a lot of questions as
to the profit and revenue versus the real labor cost, prevention of theft and the loss of CRV funds, how outreach will help particularly with multi-unit residences and condos, questions of how the increase will affect business, and questions about new types of recycling as well as the infrastructure that provides it.

As Dwayne mentioned, we have a lot of opportunities for public input. We have a website, e-mail, a phone number that has three languages on it; so we are translating those responses as well, as well as responses by mail. And as we are in the first of seven hearings, we are actively promoting them and encouraging our community members to attend or to send their concerns through us.

DIRECTOR NURU: Okay. Thank you for --
MR. PRADHAN: Excuse me one second.
Mr. Jones, in the interest of having the record complete, it looks like we were shown a visual presentation. We would like to get a copy to mark as an exhibit.

MR. JONES: Absolutely.
MR. PRADHAN: Thank you.
DIRECTOR NURU: Okay. I want to thank you for your outreach. As you know, outreach to the public is a
very, very important part of this process; so we're
beginning to see public concerns coming up in our
proceedings in these discussions.

At this time, I will open it up for public
comment. And I asked earlier for a show of hands of how
many people would like to speak. I see one. Looks like
we have maybe two.

So we will begin public comment. I generally
allow three minutes, but since we don't have many
people, we can go up to five.

PUBLIC COMMENT

MS. YOUNG: Hi, my name is Mei Young; M-E-I,
Mei, Y-O-U-N-G. I have been a resident here for over
30 years, and I just keep hearing that a lot of the
living costs passing down to the residents, but then for
the homeowners who take the brunt of the costs will keep
bearing that. But then you know, we are strictly
restricted to increase rent. So I think we should have
a link between how much rent we can get increased to the
costs that are related to it and the control of the
city. We are only getting about 2% or 1-point-something
percent rent increase; so the other expenses related to
it should be linked to that. Thank you.

DIRECTOR NURU: Thank you.

MR. PILPEL: I guess I'm on.
Good morning, David Pilpel.

By the way, an introduction. Although I think most people in the room know me, I am a native San Franciscan, and my interest in garbage goes way back. My parents told me a story that when my sister was born in 1971 at Children's Hospital, they were showing me her and said, "Look, baby sister," and I was more interested in the red garbage truck. I said, "Look, garbage truck." It was a Sunset Scavenger truck at the time. So my interest goes way back there.

I have served in many capacities with the City on and off the Sunshine Ordinance Task Force for the last 20-plus years, served on the Municipal Transportation Agency as advisory counsel, the Public Utilities Commission's advisory committee and its wastewater subcommittee, the Redistricting Task Force, and other advisory and policy bodies.

And foremost, I'm an environmentalist. I've been involved with the Sierra Club for many years, and I'm a regularly-engaged ratepayer. I got my bill last Friday like many people around town. And I've formally received the variance rate as a low-use generator, and I'll talk about that in a moment.

So that's my introduction. I generally support the application of the Company. We'll get into
details over the next few weeks at other hearings. I think it's important that we balance the Company's interests and need to make a fair and reasonable profit with the City's interests and goals in zero waste, abandoned material collection and other issues, and the interests of ratepayers to have a system that works and one that is fair and reasonable in costs and services.

Just as you said earlier, in terms of housekeeping, it would be great if we could have a public exhibit binder so when new items are added by way of exhibit, they're inserted into the binder and everyone can have access to it, particularly as questions are asked relative to exhibits.

Also, I've made comments about the website at the workshop and at other times, and I hope those comments will be taken to heart and have some things updated there. In fact, the application itself, while it is on the website, the cover letter, the narrative summaries are there as PDFs. The actual schedules are in the new Excel format, and not everyone has access to that. So I haven't been able to open all the of the tabs and then look at the schedules and interrelated tables; so I've asked that an earlier version of Excel be used to translate or, in the alternative, that the application -- that portion of the application be
additionally uploaded as a PDF so it is accessible to all because right now it is not in that way.

Again, there were a number of comments and questions that I raised and that a couple of other people raised at the workshop last week. It would be great to get some response to some of those. Some of them were just thought pieces, but there were some specific questions and comments -- some of which I assume will inform the testimony at the hearings moving forward.

I just wanted to complete my time by just ticking off a list of notes that I made today of issues that I wanted to express further about in the future, and then maybe others can touch on them as we go forward.

The 16 gallon blue and green containers are not currently being proposed. That's something that's very important to me. I think that as we move towards zero waste, we don't want to just move more materials to recycling and composting, but actually encourage people to generate less. And so people that have -- whether it's a weekly or less-than-weekly setout, if we're able to make a 16 gallon black container work operationally, I think we can also make a 16 gallon blue and green container work. And I recognize that it's not going
apply to all customers or apply to most customers, but I believe that they showed at the workshop last week that 17% of current customers have a 20 gallon black, 32 gallon blue, 32 gallon green configuration; so I believe some subset of that universe would subscribe to a 16 gallon blue or green. Not enough of a customer base to screw up the revenue projections, but enough of a customer base to make that additional container type available. And I would strongly encourage everyone to incorporate that into the thinking, and if it can't be a year one program, then perhaps it can be a year two or year three rollout.

In addition, the idea that additional truck routes and trucks will be needed to service the new configuration suggests to me that there may be an opportunity to create some additional night routes at both Sunset and Golden Gate -- perhaps more so for Sunset because Golden Gate already has a lot of night routes. So if more trucks can operate at night and collect materials primarily from businesses in the Sunset area at night, that might be a truck that can be repurposed during the day, reducing the need for trucks. It will still require as much staff, but that's one less truck and that's a cost avoided.

So those are just some top issues from me.
Some other things I wanted to tick off, I wanted to talk in the future more about trucks and Alta Leasing which is one of the other company's subsidiaries that handles trucks.

Head count by program. There was a handout that wasn't introduced as an exhibit yet that will depict the head count program at RSF. I would hope that there will be similar handouts that talk about the head count by program at RSS and RGG.

An organization chart for all of the companies so we understand where all these programs fit under various managers.

The Port lease costs for Pier 96 was discussed, but the Port lease costs for the Sustainable Crushing Operation at Pier 94 weren't mentioned and may or not become relevant to the iMRF move.

CEQA review. As to the rate process in the past, the City Attorney has forwarded the rate application as the City plans to get a categorical exemption from that. I don't know if that's in the works, and perhaps we should hear a little bit about the CEQA process as it relates to these construction projects that are contemplated.

The handling of debris box, sludge hauling, and any other programs or services the companies operate
that are not subject to rate regulation.

There was discussion and narrative about commercial customers and how commercial rates generally work in the system, but I didn't see discussion about those other sort of excluded business arrangements. I'm sure we'll hear more about toxics programs and the future expansion and all that.

The City's oversight of construction and demolition, the debris as it relates to the iMRF, and additional ways to monitor that program and achieve better diversion and better participation in the city. Again, construction schedules for these new facility projects, which are incredibly important to diversion and achieving zero waste.

The concept of ratepayer equity I've raised at past hearings, and I think there should be some further discussion of that and how ratepayers benefit and the ratepayer interest in company investments over time, how that's handled.

The operating ratio and which types of expenses are subject to the raised amount of risk to the company and should receive the full alarm, whether there are other expenses that should be passed through or whether there's an area in between of less risk where slightly lower O.R. is applied is a concept that I
thought about.

Whether education and enforcement should continue to exist both at the Companies and with the City Environment and through other hearing processes, or whether that education enforcement function should be separated and handled differently.

The base and variable rates that were talked about and sort of the rate structure and how much to allocate to each of those.

The cost of service analysis, and if this entire process were subject to Prop 218, where the relative costs would be moving. I understand we're moving more in that direction. It doesn't get all that way, but what if we applied that?

The Zero Waste Incentive. Structure was talked about as it relates to the rates, but the zero waste account that I understand was created under the new landfill agreement wasn't talked about and I'm -- I admit I'm a bit confused by this ZWI and ZWA and the two components of the ZWA and whether those targets have been met and how the structure works. I apologize that I'm not quite understanding that, but maybe we'll learn about that in the future.

The new upgrades to Recycle Central and the effectiveness post and limitation. I think Maurice
talked about that a little bit. It would be great if there was additional evidence, if they had information on that they could introduce into evidence about the diversion prior to the changes in October/November and the diversions in the report they introduce.

Something else about the upgrades and costs -- the collection truck routing, the single-container trucks, the 50/50 and the 60/40 trucks. And there's more that I wanted to develop on that, so I'll have to think about the issues that Dan Negron just touched on.

The additional capacity versus less generation, moving to zero waste, poaching of recyclables, and whether their disproportionate impact were either intended or unintended with the proposed rate structure.

So those are just the issues that I came upon this morning. I hope that's helpful in terms of an introduction.

DIRECTOR NURU: Thank you.

MR. PILPEL: Thank you very much.

DIRECTOR NURU: Any additional public comment?

No? Okay.

I want to thank everyone for their participation. This is first meeting. At this time we will be continuing the hearing, so the next one is on
Wednesday, March 15th in this same room, room 400. And we will pick up with the agenda items that we started today. Again, I want to thank you call for participating in these proceedings.

The meeting is adjourned.

Thank you.

(Proceedings were adjourned at 11:47 a.m.)
REPORTER'S CERTIFICATE

I, MAXIMILLIAN A. CONTRERAS, CSR No. 13876, Certified Shorthand Reporter, certify:

That the foregoing proceedings were stenographically reported by me at the time and place therein set forth and were thereafter transcribed;

That the foregoing is a true and correct transcript of my shorthand notes so taken.

I further certify that I am not a relative or employee of any attorney or any of the parties nor financially interested in the action.

I declare under penalty of perjury under the laws of California that the foregoing is true and correct.

Dated this 21st day of March, 2017.

MAXIMILLIAN A. CONTRERAS  
CSR NO. 13876