CITY AND COUNTY OF SAN FRANCISCO

DEPARTMENT OF PUBLIC WORKS

DIRECTOR'S HEARING ON PROPOSED REFUSE RATES

2017 REFUSE RATE APPLICATION

CITY HALL

1 DR. CARLTON B. GOODLETT PLACE, ROOM 416

SAN FRANCISCO, CA  94102

Wednesday, March 22, 2017

Volume 3

(Pages 242 - 403)
Before we move to public comment, we'll hear
get all of the City's questions on the record, I ask
additional cross-examination. In the interest of
improvements. We will then hear from Recology on the
presentation and cross-examination on the capital

All right. The order of business for this
morning is as follows: We will finish Recology's
presentation and cross-examination on the capital
improvements. We will then hear from Recology on the
proposed rate structure and revenue projections, with
additional cross-examination. In the interest of
getting all of the City's questions on the record, I ask
that Recology's testimony to be as brief as possible.
Before we move to public comment, we'll hear
from two City departments about the funding they
DIRECTOR NURU: Okay. Thank you. Please place completed survey forms in the collection box. You will find a survey on the sign-in table. Please read the Title VI script.

Title VI of the Civil Rights Act requires equal and equitable access to San Francisco Public Works program activities and services. To document that the Department is in compliance with the Title VI, we ask that everyone attending and participating in today's hearing complete a public participation 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.

After the data is collected, we will make an announcement around Title VI. So Jose Pujol, please read the Title VI script.

MR. HUGHES: We will recall Mr. Maurice Pujol.

MS. DAWSON: Marc Christensen.

BY MR. HUGHES: Direct Examination was examined and testified as follows:

DIRECTOR NURU: Okay. I think I also believe

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

MR. HUGHES: Can we have the --

EXHIBIT 35 IS DISPLAYED.

MR. HUGHES: Mr. Director, I did want to start by noting that we have created some exhibits that I think we talked about last Wednesday that have labels on them consistent with how we went through the testimony. I think for efficiency purposes, we'll mark that maybe when we're not occupying this time. But they're essentially the same exhibits that we used at the end of last Wednesday with the labels on them.

DIRECTOR NURU: Okay. Thank you.

MR. HUGHES: Mr. Quillen, Ms. Butler -- Ms. Butler, although I think we'll start with Mr. Quillen where we left off, in case you are going to be answering some of the questions, now please tell us your title with Recology and how long you've had that position.

MS. BUTLER: I'm the Corporate Development Manager, and I've had these responsibilities for about the last two years.

MR. HUGHES: And what are the relevant responsibilities that you have for purposes of these rate hearings?

MS. BUTLER: They mainly consist of managing facility development projects, as well as stationary equipment enhancement projects for the San Francisco region.

MR. HUGHES: And you're knowledgeable about the planning activities and environmental review and the cost information; is that right?

MS. BUTLER: Yes.

MAURICE QUILLEN, having been previously duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. HUGHES:

Q. Okay. Mr. Quillen, welcome back.

Where we left off last Wednesday, we were going to talk about the projects that are contemplated schedules. And let's start with the Contingent Schedules No. 1, which is the new IMRF project.

Can you describe that project for us, please.

A. Yes. The Contingent Schedule No. 1 is the relocation of the IMRF from Tunnel Beatty to the Port of San Francisco, the Pier 96 facility. And this would be -- the construction and relocation of our C&D facility that we call the "IMRF" into a 110,000 square
foot shed at the Port of San Francisco.

MS. DAWSON: Could Mr. Quillen please explain for the benefit of the record what an "iMRF" is and what "C&D" is.

THE WITNESS: The "iMRF" is "Integrated Material Recovery Facility," and "C&D" is "Construction and Demolition Debris."

MR. HUGHES: We have on the screen a picture, a diagram -- a rendering of the new facility.

I'd like to mark a paper copy of that into the record as Exhibit 35.

MR. PRADHAN: Admitted.

(Exhibit 35, "iMRF Renderings [Recology]," was admitted into evidence.)

MR. HUGHES: We have a -- I realize that I just didn't mark the labeled one, but we'll correct that at the break.

BY MR. HUGHES:

Q. But why don't you describe for us, Mr. Quillen, what it is that we're looking at with Exhibit 35, please.

A. This is a picture of the proposed iMRF at Pier 96. There's three buildings that are on this image. The building in the back is Recycle Central at Pier 96. The building in the middle with the blue trim is the proposed iMRF structure. And the smaller building to the right of the photo is an existing structure at the Port of San Francisco. It's called a "Maintenance and Repair Building," and it's approximately a 24,000 square foot shed.

Q. Where is the current iMRF located?

A. Currently the iMRF sits adjacent to the transfer station at Tunnel Beatty.

Q. What activities are conducted there?

A. That's our construction and demolition debris processing facility.

Q. Are there other types of material other than construction/demolition material that is processed at the Tunnel Beatty facility?

A. Tunnel Beatty currently houses our Public Reuse and Recycling Area. The transfer station we process the trash is also housed there, and then there's the Construction & Demolition Debris operation.

Q. All right. And what is the permitted amount of material that is allowed to go -- the volume of material that is permitted to go through the current iMRF facility at Tunnel Beatty?

A. I believe the existing permitted capacities for the iMRF are upwards through 800 tons. The designed capacity for it is different than the permitted capacity. It was designed for a 400-ton-a-day operation, and currently we're seeing tonnage number upwards of 600 tons per day for that facility.

Q. And what is going to be the capacity of the projected new iMRF at Pier 96?

A. The new iMRF facility will have a projected throughput of approximately 1,000 tons per day.

Q. The space on which the proposed new building is going placed at Pier 96. Currently whose land is that?

A. The land is owned by the City and County of San Francisco, the Port of San Francisco.

Q. And does Recology currently have a lease for that space?

A. Currently Recology has a lease for a portion of the space. The eastern side of the building is contemplated to be constructed on our employee parking lot, and the western side of the property, we currently do not have a lease for.

Q. And what is the status of discussions about leasing the remainder of the property to facilitate the construction of this new building?

A. We've been in discussions with the Port of San Francisco. Last week we did a presentation to the Port commission. At this point, we are in the process of negotiating an exclusive negotiating agreement with the Port of San Francisco. Once we get that document finalized, we'll be moving to a term sheet. Type of negotiations upon completion of the term sheet, we'll be back to the Port of San Francisco for approval by the Port commissioners.

Q. And what are the advantages of the new iMRF facility that Recology envisions?

A. Well the new iMRF, as compared to the old iMRF, will represent what we consider the "state of the art" technology. The existing system relies very heavily on manual sorting. Essentially, the material that comes from our route trucks and the public goes across a conveyor belt. We have a shaker screen that takes out fines. And beyond that, everything that we process on that line is manually sorted.

The new iMRF will be similar inasmuch as that we will have a manual sorting component, but we will also employ much more elaborate automated sorting techniques. Once the material goes through the initial manual sort, it will go into a size reducer which essentially is a shredder. And at that point, the shredded or sized reduced material would run through a series of ballistic separators which use air to separate material, shaker screens, and optical sorters and...
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<td>MS. DAWSON: Why don’t we continue with</td>
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<td>Ms. Butler but have Mr. Quillen stay with us while we</td>
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<td>MR. HUGHES: Very good.</td>
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<td>BY MR. HUGHES:</td>
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<td>Q. Mr. Quillen, can you tell us what is</td>
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<td>trash processing facility at Tunnel Beatty?</td>
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<td>A. The second contingent schedule at Tunnel</td>
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<td>Beatty is the black cart processing equipment or system.</td>
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<td>The Recology companies intend to locate the iMRF to the</td>
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<td>Beatty which we intend to repurpose into our black bin</td>
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<td>Q. And you talked last week a little bit about</td>
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<td>A. Correct.</td>
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<td>Q. And trash processing facility that you</td>
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<td>A. It’s our intention to process 100% of all the</td>
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Transcript of Proceedings - Volume III
March 22, 2017

5 (Pages 255 to 258)
MR. HUGHES: Let's take a look, if we could, Exhibit 37, if we could.

BY MR. HUGHES:

Q. I recognize Exhibit 37's got a lot of small images and words on it. But can you tell us generally what Exhibit 37 is showing us.

A. Exhibit 37 is the zero waste processing equipment layout schematic that was set up for us by Van Dyk Baler. And it is a representation of all the equipment that we will be placing in the new facility to process the trash.

Q. And you mentioned -- you talked a little bit when we talked about the pilot about what you're expecting this equipment is going to be capable of from a diversion perspective. Can you remind us again when you get full-scale, what percentage of the material is it that you're expecting to be able to recover the black bin.

A. Well, currently with the pilot, we have an expectation to recover approximately 25% of the material. We would assume that we would have similar levels of recovery with the new system. We are also hoping that over the course of the next few years, we'll start to understand a bit more about the product that we'll be sorting out of the trash, potentially allowing us to generate additional diversion.

Q. And do you contemplate the possibility of increasing that diversion with the advent of either new technologies or new markets?

A. Well, the technology that currently exists that is changing every day -- you know, this is a European approach to trash processing that's currently employed in other recycling facilities. We would suspect that within the next two years, there may be some improvements in technology that we could incorporate into this design. At this point, we don't believe that there is much else that we could potentially incorporate into this design.

From the marketing standpoint, we understand our existing markets. The fiber markets are very strong. We sell a very good product into the market. The material that we'll be recovering from the waste stream as a result of the pilot will be fundamentally different. So as we operate the pilot, the expectation is that we will learn a lot more about the material that we will be recovering from the trash.

We're hoping that at some point, technology and the markets will mature and will allow us to get more product into the marketplace. And I think it's important to understand that this type of equipment is necessary for us to contemplate making any sort of movement toward zero waste. While we may not be able to commit to high levels of diversion now, we do believe that more material will become marketable in the future as the markets understand what the products' characteristics are.

Q. And with the implementation of Contingent Schedule 1 and Contingent Schedule 2, if approved, does Recology contemplate being able to do some processing of all of the waste stream that it handles for the city?

A. The pilot process -- the pilot zero waste project will process 100 tons per day. The actual zero waste facility will process all of the trash that we get from the route trucks.

We will actually be relying on the transfer station and the Pit, where all the trash currently goes, to warehouse the material, and we would use a series of excavators to take the material out of the Pit and introduce it into the system.

Q. All right. Well, that's all I wanted to do by way of generally introducing these capital projects, and I thought I'd turned to planning.

MR. PRADHAN: Before we move on, just for the record, this one-page rendering will be marked...
we are looking at repurposing some existing head count in our facility to operate that system. As I had mentioned earlier, it’s going to be a fairly automated system, so we are not anticipating much head count as a result of this process.

Q. Can you speak a little bit to your anticipated reduction in landfill disposal costs? So if you’re actually processing all the trash and you’re anticipating you’d set a 25% diversion, what does that mean in terms of both – I mean, you spoke a little bit about the commodities that’ll be recoverable and maybe future commodities, but you really didn’t speak at all to how many fewer trips to the landfill you might have as a result of this new equipment. Is that reduction assumed in the contingent schedule you developed?

A. In the most simple terms, every load of trash we haul to the landfill is approximately 25 tons. So for every 25 tons of diversion that we can get out of the waste stream, that represents one less load to the landfill. When we look at the pilot program for the zero waste trash processing, it’s approximately one load of trash less going to the landfill. When we look at the C&D operation and the iMRF, in the event that we complete that equipment installation and build the building, it represents a 20% increase in our disposal.

We currently process 600 tons a day through the iMRF. Assuming that we have 20% more recycling, that would be six less trucks to the landfill -- just real high-level numbers. The zero waste processing equipment that we would be contemplating installing here, potentially if we did 800 tons of 25% diversion, that’s 200 tons of material a day that we could pull out of the landfill. And at that point, it’s another almost seven truck-trips-per-day reduction.

So while the pilot wouldn’t have much in the way of landfill or truck trip reductions, it would give us a lot of information about the materials. But the contingent schedules associated with the iMRF and the zero waste trash processing would significantly reduce the number of trucks that we send to the landfill on a daily basis.

Q. Are there any operating costs associated with the trash processing in Contingent Schedule 2 in terms of head count?

A. Yes, there are.

Q. Could you speak more to that?

A. I have to go into the schedules -- the contingent schedule.

For the trash processing system, we are contemplating 50 additional head count. There would be 4 managers for the facility, 2 drivers, and 44 sorters.

Q. And can you describe a little bit about how you imagine that operation as working -- how many shifts you’re going to be doing, that kind of thing?

A. We would be operating that piece of equipment five days a week at a minimum. We would be operating at two full shifts; so approximately 25 people per shift.

Q. So if Recology is still kind of looking at the operational viability of some of those technologies to recover material from the black bin, how did you decide on what you put in terms of your proposal for the equipment in Contingent Schedule 2?

A. The equipment that we’re contemplating in the zero waste processing equipment is essentially what’s being used in other areas to process trash. It’s a little bit larger than what a typical installation might be, and it is representative of, I think, the most modern, best available trash processing technology.

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

MEGHAN BUTLER, having been previously duly sworn, was examined and testified as follows:

///
cost-estimating process for the projects that we've been talking about in the rate application?

2. Yes.

Q. Okay. And then after the cost estimating, then what?

2. Sure. Typically we're then at a point where we can submit for the appropriate environmental review, or CEQA, for that project. At that point, typically that process takes several months, if not, years to go through; so we often in parallel begin to go through the detailed design process, which then takes that conceptual design I just talked about and brings it down into the level of detail where you have specific drawings for civil, mechanical, structural, architectural -- all of the elements that you need to move forward with the construction of the project.

Q. And what are the governmental agencies that you're working with for the environmental review process?

2. Again, it depends on the specific project. But typically it works with the Planning Department for the environmental review, and then when you get into the building permit process, that's with the Department of Building Inspection.

Q. Okay. So you're at the environmental review stage. What's the next stage?

2. So at the conclusion of the environmental review as well as at the conclusion of the detailed design process, we're typically at a point where we can submit for the building permits. We're also at a point where we then can send out that design package, because it's now fully designed, for a bid process. And in that process, we'll typically receive several proposals from bidders and then Recology will select a specific company based on a number of different criteria, and then eventually execute a contract with that company for the construction based on that now fully-designed project.

Q. Is that the general contractor?

2. Yes, typically.

And then once the building permits are approved, we can begin construction.

Q. And what about the subcontracts? What's the process involved for making sure that you got the costs right on that?

2. Sure. And again, it depends on the specific project. But for example, in the West Wing, there's a competitive subcontracting process. So a general contractor we went out to bid for, got several different bidders on that, and then went through a competitive subcontracting process where subcontractors bid on each
Q. Okay. So why don’t you now tell us given that background and overview where is Recology in terms of its planning for the West Wing project for the processing of organics at Tunnel Beatty?
A. We've executed a contract with the general contractor, and the subcontracting bidding process is concluding this week.

Q. And at what point will you be in a position to have the guaranteed maximum price that you talked about?
A. We started negotiating that with the general contractor, and I would expect in the next couple of weeks that will conclude and there will be a guaranteed maximum price for the West Wing project that will be a part of the contract.

Q. Okay. And in the rate application, is there included in that a cost for the project?
A. Yes.

Q. And were you involved in preparing that?
A. Yes.

MR. HUGHES: Let's mark, if we could --
A. I think it's Exhibit 38, which is part of Exhibit Tab K to the rate application.

MR. PRADHAN: Admitted.

Q. We're not going to get the whole document to start with, but what I thought we would do is have you identify what this document is and what went into its preparation. I recognize we can't see it very well on the screen, but we've handed out copies of the document. Can you tell us what this is?
A. These are the project costs for the West Wing.

Q. And what are the total project costs estimated for the West Wing?
A. $18,857,170 dollars.

Q. And can you walk us through just the general components of this project cost.
A. Sure. So all of the these line items are the different elements involved in the construction process for the project, both direct and indirect costs. They also include the soft costs which are your insurances, your overhead and profit with the general contractor, and your contingencies, to get you to a total construction cost, which is just other $17 million dollars for this project. That's then added to your design and engineering costs, as well as your special inspection and permitting costs to get you to the total project cost.

Q. And when we look at this sheet, where we see the tabular form with all of the lines in the tables, who generated that information?
A. The general contractor.
Q. And below the table information, who generated that?
A. Below the "Total (Construction)" line, the "Design/Engineering" cost is a direct quote from the design team, which is comprised of the architect as well as the engineers for the project.

The special "Inspections" cost are from a quote a company that goes by CEL that does special inspections for these types of projects.

And the "Permit" costs are a general rule of thumb that's a percentage of the overall construction costs.

Q. What steps did Recology take to make sure that it was getting fair pricing on this project that is proposed?
A. As I mentioned earlier, we did go through a bidding process. We put out a request for proposals for the construction management and general contracting portion of this project. We received three proposals from three different companies for that work.

Recology reviewed those and based on a number of different criterias, selected the general contractor that we have now had an executed contract with. At that point, the general contractor put together a project cost based on the fully-designed West Wing project, and those costs were also -- the fully-designed project was also sent to a third-party cost estimator that goes by TBD Consultants. We also asked them to put together a full construction cost for the project so that we could compare the two to ensure that we were getting reasonable costs for the West Wing project.

Q. Do you have a general understanding of what went into that comparison to give you the idea of whether you were in the right ballpark for this?
A. Yes. So there were several meetings that occurred and several different iterations of different components of this project and the costs associated with it, and there were several changes that were made based on conversations between the cost estimator, the general contractor and Recology.

Q. And based on the amount of work that has gone into the planning and the cost-estimating for the West Wing project, what's your degree of confidence in the budget you put forth in this Exhibit 38?
A. Through conversations with the general contractor as we're approaching the guaranteed maximum price in which we've learned that these costs are right in line with what the guaranteed maximum price looks like it's going to come out to be, we're fairly confident that based on what we know about the project today and all the work that we've put into it, that these are accurate costs for the project.

That being said, there are always events that happen in construction that are unknown or unforeseen that could cause these costs to change. But you know, we do believe we put appropriate planning into it that these are acceptable pricing.

MR. HUGHES: I want to talk a little bit about the project timeline with you and mark as Exhibit 39 four pages of project timeline information.

MR. PRADHAN: Admitted.

(Question not transcribed.)

BY MR. HUGHES:

Q. Okay, Ms. Butler, Exhibit 39 is four pages. It has project timeline information and each of the pages sort of builds on the projects we're going to be talking about. But the first one relates to the West Wing. Can you orient us toward what this document is showing?
A. Yes. This is a timeline for the West Wing, starting at the beginning of the year. As I mentioned earlier, we did receive an approved site permit for the project. That was towards the end of 2016, and then on January 5th, we submitted for our building permits. We anticipate those to be approved in the next couple of months, which will then allow us to begin construction. Construction is anticipated to be about a 13- to 14-month process, so we anticipate it being complete by September of 2018.

Q. You mentioned that the environmental review process has completed. Are there still appeals that could be filed or is everything done on the environmental review?
A. Not at this time.

Q. They --
A. They cannot be appealed. There was an opportunity for appeals during the process, but that time is now passed.

Q. All right. And so based on this then, if the project went forward as it’s being proposed, it would be complete and ready to be operational when?
A. By September of 2018.

Q. All right. Let’s turn our attention to sort of a similar kind of discussion, but about the first contingent schedule, the Integrated Material Recovery Facility that’s anticipated to be at Pier 96.

Keeping in mind the discussion you had walked...
us through in terms of the planning steps, can you tell us where the Company is in its planning for that facility?

A. The Company has completed the development of a conceptual design and the associated capital cost estimate for that project.

Q. So what are the steps that remain then for that project from a planning perspective?

A. The project needs to go through its appropriate environmental review. It also needs to go through the detailed design process, and from there it will need to go through the building permit process, and somewhere in that period, likely earlier rather than later, we will like to go out to bid with the detailed design for the projects so that we can get the total project costs for the IMRF.

MR. HUGHES: Okay. Let's talk about the projects costs then for a moment. I'd like to mark as Exhibit 40 a document that is part of Tab K to the rate application that is entitled "Cost Estimate IMRF Facility."

MR. PRADHAN: That will be admitted as Exhibit 40. (Exhibit 40, "IMRF Facility Cost Estimate [Recology]" was admitted into evidence.)

BY MR. HUGHES:

Q. I think unless I hear objections, I won't try this on the ELMO because I don't think that showed very well. But we have in front of us now Exhibit 40. Can you tell us what this document is and how it was prepared?

A. This is cost estimate for the IMRF, which is Contingent Schedule 1. And to put this together, Recology hired a third-party consulting team. That consulting team comprised of a project management firm, an engineering firm, as well as solid waste experts in the industry. Together, that consulting team in coordination with Recology as well as in coordination with a couple of different equipment vendors put together the conceptual design.

As I mentioned earlier, that includes a lot of steps including site visits as well as equipment layout orientation so we can see how the process flow works. That informs how the traffic flow is going to go, what tipping floor area we need, how the commodities are going to be outloaded efficiently, and also informs what type of support facilities we need such as scales, restrooms, break rooms, office space, et cetera.

That conceptual design was then finalized through a couple of different iterations by sitting down with Recology and the larger team, and then that was used to inform this cost estimate that we have here in front of us.

Q. Okay. And following through Exhibit 40, I see that there are some shaded and I don't know if that's orange or something -- some major headings, it looks like, of the different cost elements; the first one being "Design," it looks like. Are the items under the Design heading the estimated design costs for the IMRF facility?

A. It's the estimated costs for the detailed design of the IMRF facility.

Q. And from your perspective, in terms of the planning work you've done, do you feel that you have with reasonable certainty the ability to project those kinds of costs?

A. At this stage in the project and the way that we went about coming up with these costs is the consulting team use their decades of experience doing construction management as well as engineering work, but they also had consultations with local Bay Area general contractors that have completed projects in the recent years that are of similar size and similar complexity to what we're contemplating here. They then looked at the total capital that was spent for those entire projects, so from design through the end of construction, and then looked at the amount of that total capital that was spent on detailed design and permitting. And then they took those associated percentages, which you can see listed here in the cost estimate, and applied them to this project to get us the anticipated costs for both the detailed design and the permitting.

Q. Okay. And it looks like "Construction" is maybe the bulk of the expense for this project; is that right?

A. Correct.

Q. And what is your experience in terms of your ability to have accurate cost estimating at this stage of the process for a project like this?

A. A project like this is, you know, it's a site where there's some pretty complex subsurface. A lot of work went into reviewing some preliminary paperwork for the subsurface conditions so we could inform the foundations that were needed, also the type of building that we would need, the size, as well as the equipment needs; so mechanical, utilities, et cetera. There was a lot of work that went into this, but there is always a chance that this can change based on the detailed design as well as we get into the
Q. Is it fair to say that the part of the project we can see that's above ground is a little easier to project than the part that's going to be below ground?

A. Yes.

Q. And then flipping just through so that we're oriented towards this cost estimate document, you've also got amounts on the last, it looks like, for "Fixed Equipment." Can you tell us what that is?

A. Yeah, that would be the truck scales and support. Mostly just the truck scales, but the support that's needed that's fixed in the ground for the operations to work and to support the stationary equipment, which would be the IMRF equipment that Maurice walked through earlier.

Q. And speaking of that equipment, I'm just jumping down. On line 83, it says "C&D." Is that the "Construction/Demolition Equipment" component of this?

A. Right. The costs that you see here in these line items were the costs that were given to us by the equipment vendors that we showed earlier as an exhibit and that Maurice walked through.

Q. And did you talk to multiple vendors in order to try to get a sense of the range of prices that you might expect for a project like this?

A. We did. We had detailed conversations with two vendors as well as did some site visits.

Q. And how did you arrive -- in terms of putting this cost estimate together -- at using this vendor that you did? Which vendor did you use?

A. BHS, Bulk Handling Systems.

Q. And how did you arrive at the decision to use that vendor?

A. They provide an array of equipment that is very capable of handling the bulky, heavy material that you'll often find in Construction & Demolition debris and type of debris we find in our Public Reuse and Recycling Area. We also were able to visit a local Construction & Demolition processing plant, Zinker Road, BHS, Bulk Handling Systems built as well; so we were able to see it in action and we were able to see the recovery that it was able to do and how it was able to hold up with the type of equipment that it was processing. That gave us the comfort that we would be able to process everything that we would like to through this facility and associated processing equipment.

Q. Was there a stage of the process in which the anticipated costs were greater and you decided to narrow the project in order to try to contain costs?

A. Yes.

Q. Describe that for us, please.

A. The original cost estimate that came back seemed too expensive for what we were trying to do; so we went through essentially a value-engineering process to look at where we could cut those costs, and that included looking at every one of these individual sections that we have here and seeing what we could reasonably exclude, but still build a successful project.

Q. Let's turn then to the timing that's anticipated for this project. I think we still have Exhibit 39, the timeline document, on the screen. I want to flip to the next page of it, which is the timeline, I think, anticipated for the Contingent Schedule No. 1 project. Can you walk us through that?

A. Yes. As Maurice mentioned earlier, we are in conversation with the Port about the lease. But in parallel to that, we actually have also -- using our conceptual design and capital cost estimate, been able to prepare an application for the appropriate environmental review for this process. We are able to -- we actually have submitted the first round of that, and we do anticipate that whole process to take through this calendar year.

At the end of this process or through that process, we will actually also go through detailed design so that we can also go out to bid and select our general contractor on the project so that we can get them involved early because we do have a compressed time schedule here.

Q. So you're saying running the environmental review process in parallel with the building permit process?

A. No. What I'm saying is running the environmental review process in parallel with the detailed design of the project and the bidding for the construction of that project. We won't be able to submit for our building permits until the environmental review has concluded for the project.

So that's the second block that you see here. In the beginning of 2018, we anticipate going in for our building permits; anticipate those to be approved in the summer of 2018, which will allow us then to begin construction. We anticipate somewhere around a 15-month construction and equipment procurement and installation time for this project, which puts us at construction completion in September of 2019.

MR. HUGHES: Thank you. Let's turn then next
to the final project that we've talked about, which is
Contingent Schedule No. 2, the trash processing facility
at Tunnel Beatty. I'd like to mark as Exhibit 41 the
cost estimate for that.

MR. PRADHAN: Admitted as Exhibit 41.

(Exhibit 41, "Tunnel Trash Processing
Facility Cost Estimate [Recology],"
was admitted into evidence.)

BY MR. HUGHES:

Q. Is this the same type of cost estimate
document that we just talked about as Exhibit 40, but
this one being for the trash processing facility?
A. Yes. It's formatted the same and is the cost
estimate for Contingent Schedule 2, the trash processing
facility.

Q. And can you tell us, in terms of the stages of
planning that you've already talked about, where the
Company is in terms of planning for this facility?
A. Similar to Contingent Schedule 1, the iMRF,
we have gone through a developed conceptual design and
associated capital cost estimate for the project.

Q. And what is the cost projected for Contingent
Schedule No. 2?
A. The anticipated cost from the beginning of the
detailed design through the permitting and the
construction of building improvements, because I think
as most of us are aware, we would be putting this
project in the existing IMRF building which is currently
at Tunnel and Beatty; so the construction for this
project is really improvements to enable to accommodate
the trash processing equipment that Maurice walked
through. Through the management of the project as well
as the equipment installation, we have a total project
cost of $18,975,804.

MR. HUGHES: And I should mention that this
document also is part of Tab K to the rate application.

BY MR. HUGHES:

Q. The general elements of this document,
I gather, are similar. You've got an expected design
cost of $214,047 dollars; is that right?
A. Correct.

Q. And you've talked about arriving at the
permitting cost. In this cost estimate, consistent with
what you just said, the building improvement
construction is $500,000 dollars, which is significantly
less than the iMRF facility and that's because the
building already exists?
A. Correct.

Q. And then if we turn then to the trash
processing equipment installation, that number comprises
a very large percentage of the total project cost;
is that right?
A. Correct.

Q. And what is the amount?
A. $17,404,626 dollars.

Q. So of the almost $19 million dollar total cost
that is anticipated for this project, about $17,400,000
dollars of it is the equipment that's going to go in
that building; right?
A. Correct.

Q. And tell us then, if you could, what has gone
into the planning for the equipment that went into
the trash processing facility.
A. Yes. We again spoke with several different
equipment vendors and went through several iterations of
not only what this equipment would be, what the
individual pieces of equipment, but also how would the
material would flow, what is the required throughput,
how we would efficiently load out the commodities as
well as the residual that comes from that process.
It also was done in conjunction with the same consulting
team that I mentioned earlier to ensure that all the
stationary equipment could then be accommodated through
the building improvements to the existing structure.

Through several iterations, lots of different
changes based on what was needed for the project and
what the goals of the project were, we came up with the
final "Processing Equipment & Installation" number that
you see here.

Q. And who was the vendor that you selected for
this contingent schedule?
A. It was a combination. We selected Van Dyk
Recycling Solutions as well as Titus Installation and
Maintenance Services. And essentially the way that it's
broken up is they worked in partnership together to put
together the cost for the equipment purchasing as well
as the installation.

Van Dyk Recycling Solutions handles the
majority of what we call the "smart equipment," so that
would be your optical sorters, many of your screens,
that Maurice walked us through earlier; whereas Titus
Installation Services is really our integrator. They
will put in the bunkers, the conveyors that take it from
one place to another, to ensure that it's really a
turnkey operation for us once the equipment installation
is done. So they work together to put this for the
total cost.

MR. HUGHES: I'd like to mark as the next
exhibit, 42, a document that includes the equipment
costs for both the Contingent Schedule No. 1 and
Contingent Schedule No. 2.

MR. PRADHAN: Exhibit 42 is a March 7, 2017
cover letter with two exhibits, A and B.
It will be marked as Exhibit 42.
(Exhibit 42, "Contingent Schedules 1 & 2 [Recology]," was admitted into evidence.)
MR. HUGHES: Thank you.

BY MR. HUGHES:

Q. Ms. Butler, can you tell us what Exhibit 42 is?

A. This is a packet that contains the cost
estimate for Contingent Schedule 1, the iMRF, as well as
the cost -- the pricing details from BHS, Bulk Handling
Systems, which is the equipment vendor that we worked
with for the specific equipment to go into the new iMRF
facility.

That is then followed by the Contingent
Schedule 2, trash processing cost estimate. And behind
that is the final documents, which are the pricing from
Van Dyk Recycling Solutions and Titus Maintenance and
Installation Services for the trash processing equipment
and installation.

Q. And are those -- the two equipment vendor
quotes that are contained within Exhibit 42, are those
two most up-to-date vendor quotes that you've received

completed, and that's what we plan to do.

Q. Going back through this for a moment about the
cost estimate for the trash processing facility, because
so much of that cost budget is the equipment that's
going to go into that facility, can you describe your
confidence in that cost estimate comparing it, for
example, to the Contingent Schedule 1 iMRF facility?

A. I would say we would be more confident in the
cost of the Contingent Schedule 2, the trash processing,
because it's majority equipment. There is less
complexities there, the equipment vendors know exactly
how much each piece of equipment costs, and having
Van Dyk work with Titus -- and they've done this before
several times in the past -- they know what type of
integration is needed for the project to be turnkey.

Because there is less construction and
building improvements and there's no subsurface work
that's done, basically the majority of the work that's
needed related to concrete is for the foundations and
pedestals for the equipment. We have a higher level of
events.

Q. Okay. And then we can see the stages that
are set forth in Exhibit 39 in terms of the project
timeline. And then when is the Company anticipating
it will be done and ready to start operating the trash
processing facility at Tunnel Beatty?

A. We're anticipating the full project to be
complete by September of 2020.

MR. HUGHES: That concludes Recology's
presentation on the capital projects.

DIRECTOR NURU: Some cross-examination from
the City?

MS. DAWSON: I have a few.

CROSS-EXAMINATION

BY MS. DAWSON:

Q. So you've given us a lot of information on a
variety of these projects, and the West Wing is clearly
the one that is furthest along. I'm wondering if you
could speak to the way that the West Wing projects
changed between conceptual and the design costs that
you -- or the building cost that you have today, and
whether you used that to inform the accuracy of your
current sort of conceptual designs costs for the other
two projects.

A. Of course. Our experiences in each project
will inform what we do in the future, so we have taken
everything that we've learned at the West Wing project
and applied it to both the contingent schedules.

I do want to clarify. If we're referring to
the 2013 West Wing project, as Maurice described in our
last hearing, that was a project that was identified for the use of research and development and was a quite a bit smaller building. And because of the change in intention of the use of that building as well as the redesign of that building, that 2013 West Wing contingent schedule wasn't triggered and the fully-revised with the new intended use of the West Wing was proposed as part of this rate application.

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

A. Correct.

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

A. Yes.

Q. Can you please describe that a little more.

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

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

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

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

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

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

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

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

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

Q. Who will be up here later, I presume.

A. So you've already provided a lot of the equipment. I know that there's a lot of experimentation going on in the trash processing. How comfortable do you feel with this conceptual design estimate given some of the uncertainties on the actual equipment you may end up using? Because as you've noted, equipment is a huge percentage of the projected cost.

A. It is a risk of the project. But where we sit today, we feel fairly comfortable given that this type of equipment is used very readily throughout the rest of the world, and we have worked with equipment vendors that have installed and seen what that equipment can do.

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A. That's a good question. I'm not sure I'm the best person to ask about the mechanics of what we would do at that point, so I'd have to defer to somebody else. Probably John Porter.
The IMRF, I think, would probably eliminate seven or more trucks to the landfill. And the zero waste processing pilot, assuming that we take a 25% diversion rate and apply it to our existing tonnage, another seven or so trucks to the landfill.

But once again, these are just very high-level cessments based on a simplistic throughput calculation at 25 tons per load.

BY MR. HUGHES:

Q. So the City would ask Recology to put together some kind of more global assessment. It's asking for a lot of capital investment, and I think the City really needs to have a far coherent understanding of how this investment will actually attribute towards its zero waste goal.

I also think that we're interested in understanding whether when we get to that point, does Recology think that there are going to be further capital investments that would eventually be needed to achieve this goal. So if we get this information and we see you're only at a certain point we still need to go further, exactly how does Recology envision we're going to work towards that diversion and zero waste goal?

I do have one more kind of interesting question that came up as a result of Mr. Quillen's testimony. You had mentioned that the air quality system improvements would actually extend to the entire transfer station. Did we understand you correctly?

MR. QUILLEN: Yes.

MS. DAWSON: And is that cost included in the West Wing construction schedule? And if so, can you make that clear?

MR. QUILLEN: The odor control system that we are proposing for the West Wing will in fact treat the transfer station and the West Wing as one building. And the air from both facilities will be extracted through a series of four ion generators located in different parts of the facility.

So to answer your question, yes, the transfer station -- the odor from the transfer station will be treated in addition to the West Wing.

THE WITNESS: And I can point you to where that is. The odor control system is actually split between a couple of lines. Towards the bottom of the West Wing cost estimate, you'll see "HVAC" and "Electrical." Those are both components of the proposed odor system; so the total cost is included in there.

MS. DAWSON: Thank you. I think that's our questions for now.

MR. QUILLEN: We anticipate at this point that the level of environmental for the IMRF would be limited to a mitigated negative declaration as well.

MS. DILGER: Thank you. With the moving of the IMRF and upgrading of the facility on Tunnel, during and after construction, will the public still be able to bring their recyclables?

MR. QUILLEN: The public will still be allowed to bring its recyclables. We operate buyback centers at Pier 96 and also at Tunnel Beatty. The buyback center at Tunnel Beatty will continue to be in operation. At Pier 96, we operate a buyback operation that comprises of a fiber purchase system where we buy cardboard and newspaper and things of that nature from the public, and cans and bottles. We do not buy many cans and bottles from the public at the Pier 96 facility. The location where we currently operate the buyback is where we will be installing the equipment for the zero waste pilot; so we will be shutting down the buyback -- cans and bottles and glass at the Pier 96 facility. The head count associated with that project will be utilized to operate the zero waste pilot.

MS. DILGER: Will there be other locations where people can bring their recyclables for redemptions or buyback? Or just Tunnel Beatty,
MR. QUILLEN: We will still maintain the buyback center at Tunnel Beatty.

MS. DILGER: Thank you.

The rate application summary placed a good amount of impact on Construction & Demolition debris due to increased development throughout the City in the last few years. We've seen no sign of this slowing down. How much of this infrastructure cost is being placed on the residential ratepayer?

MR. QUILLEN: The expenses associated with the process of the project are a tipping fee increase. Essentially, that tipping fee increase would be applied to all customers in the same fashion. It's important to understand that with the Public Reuse and Recycling Area, it generates anywhere between 250 to 300 tons per day. That material is mostly residential in nature would be going across the new iMRF building; so it's important to understand that the iMRF will serve Construction & Demolition customers as well as the residential ratepayers.

MS. DILGER: Are there any specific fees for commercial or developers related to the Construction & Demolition debris?

MR. QUILLEN: We charge a universal tipping fee for all material. We do not differentiate between residential or commercial customers in our tipping fees.

MS. DILGER: All right, thank you.

That's all I have for now.

DIRECTOR NURU: Thank you. Could we call John Porter.

(Ms. Butler and Mr. Quillen step down from the witness stand.)

DIRECTOR NURU: Prepare to swear him in, please.

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

DIRECT EXAMINATION

BY MR. BAKER:

Q. Good morning, Mr. Porter.

A. Good morning.

Q. Can you will state your full name for the record, please.

A. John Porter.

Q. What is your job?

A. I am the Group Controller for the San Francisco region at Recology.

Q. And what companies are you responsible for in that position?

A. Recology Sunset Scavenger, Golden Gate, and Recology San Francisco, as well as CleanScape San Francisco.

Q. As well as what?

A. CleanScape San Francisco.

Q. Lean a little closer to the microphone so we can make sure we can hear you.

Q. How long have you worked for Recology?

A. Nearly four years in June.

Q. And most of the matters that you're here to testify about are covered in quite a bit of detail in the application.

A. Correct.

Q. So I don't intend to go over those with you, but you'll of course be available in a few minutes for cross-examination on all those. But what I would like to do is ask you about three issues of particular interest, and also because they represent some material that may not be fully explained in the application.

A. Okay.

Q. So I want to talk about the rate structure, COLA, and the accounting treatment for capital assets.

A. Okay.

Q. The accounting treatment for capital assets will be the rest period for people when they can take a quick nap and stuff. But let's talk about the rate structure first.

MR. BAKER: If you could put the overhead on please.

(Exhibit 2 is displayed.)

BY MR. BAKER:

Q. This is a page out of Exhibit 2 which Mr. Arsenault has already testified about.

But just to remind people, this shows the proposed rate increases as it would apply to a single family home; is that right?

A. Correct.

Q. Okay. So let's start with the fixed charge, which is identified here as the "Unit Charge."

A. Yes.

Q. And that is proposed to go up; correct?

A. Yes.

Q. From what to what?

A. Right now, I believe $5.16.

And it's going to go up to $20 dollars.

Q. Has Recology's rate for residential ratepayers always included a fixed unit charge?

A. No. This was incorporated as part of the 2013 rate application for residential customers.

Q. And 2013 was the first time?

A. Yes.
<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q.  And what’s the thinking behind having a fixed unit charge?</td>
<td>A.  There was an exhibit introduced as part of the 2013 application prepared by Armanino McKenna, our accountancy firm, that showed that approximately 60% of our costs were fixed in nature. And so in terms of providing the services that we do in San Francisco, 60% of our costs were unavoidable. They're incurred whether or not you utilize the services every week, day in and day out. Those include maintaining the facility, capitalization of a fleet, maintaining capacity in the truck, labor, et cetera.</td>
</tr>
<tr>
<td>Q.  You said 60%?</td>
<td>A.  Correct.</td>
</tr>
<tr>
<td>Q.  So in 2013, with the institution of a fixed unit charge, did that represent the actual percentage of costs which were fixed versus variable in 2013?</td>
<td>A.  It did not.  I believe the approach was to step in and introduce that concept as part of 2013 in hopes of getting to a cost structure that -- and a revenue structure that approximated our cost structure by increasing that fixed component.</td>
</tr>
<tr>
<td>Q.  If it’s raised to $20 dollars, does that then represent an actual -- the actual proportion of Recology’s costs which are fixed versus variable?</td>
<td>A.  Correct.</td>
</tr>
<tr>
<td>Q.    What is the thinking behind that?</td>
<td>A.  Well, typically a two-unit building would also have a two-unit building, a duplex? What’s going to be the per-unit charge there?</td>
</tr>
<tr>
<td>Q.  Was this prepared at your request?</td>
<td>A.  Yes.</td>
</tr>
<tr>
<td>Q.  Going back to the portion of Exhibit 2, the chart showing the rate changes, what if you have a two-unit building, a duplex? What’s going to be the per-unit charge there?</td>
<td>A.  For a two-unit building, it would be $20 dollars per unit, or $40 dollars.</td>
</tr>
</tbody>
</table>
Q. Approximately how many customers qualify for a discount for our customers?
A. We have always offered a low-income 25% discount for our customers.

Q. And that's proposed to be continued?
A. That's proposed to be continued, yes.

Q. Approximately how many customers qualify for that now?
A. Correct.
significant amount of black cart material; so the vast majority is being landfilled. To answer your question directly, it is not more expensive to landfill material than it is to process it for recycling or composting.

**Q.** So it's more expensive to process the blue bin material than to send the black bin material to the landfill?

**A.** Correct.

**Q.** And it's more expensive to process the green bin material than to send the black bin material to the landfill; correct?

**A.** Correct.

**Q.** So again, what's the thinking behind having the volumetric charge for the black bin higher?

**A.** Again, we are -- as part of the 2013 application, we created this new structure which added a charge of $2 dollars to the blue and green, and the goal was to slowly and incrementally adjust those costs to reflect the actual cost of service. And so that is a step in that direction.

Also, you know, looking forward as Meghan and Maurice had discussed earlier, we are going to be processing black cart material, at which point the cost of processing black cart material may approximate the current structure that we're proposing; so a little foresight is put into this as well.

**Q.** But also the difference between the per-ton cost illustrates your point earlier that a customer can mitigate the impact of the rate increase by reducing black bin usage in favor of the blue or green for, among other reasons, the price differential.

**A.** Correct.

MR. BAKER: Let's move on now to apartment rates.

(Exhibit 44, "Apartment Rate Examples 1 [Recology]," was admitted into evidence.)

(Exhibit 44 is displayed.)

BY MR. BAKER:

**Q.** So Exhibit 44 is a chart. This is a chart you've prepared?

**A.** Correct.

**Q.** And what does this chart tell us?

**A.** Well, this chart represents the most common apartment service configuration. And so we've selected the two most common service configurations, and it shows the number of units -- so it might be worth clarifying that "apartment" customers are buildings with 6 or more units up to 600 rooms, and so residential are considered 1 to 5 units. So this is for customers with 6 units, 92 -- 32 gallons of composting plus 192 gallons of recycling over the total volumetric service.

**Q.** 32 plus 192 plus 192?

**A.** Correct.

**Q.** All right. And so under "Current Rates," this particular customer with six units gets a Diversion Discount of $148.15?

**A.** Yes.

**Q.** Yielding a monthly charge of $219.51?

**A.** Correct.

**Q.** So how will that change under the proposed rates?

**A.** Again, similar to the residential rate structure. We are actually reducing the unit charge $0.16 cents. We're reducing the volumetric charges per gallon from $25.90 to $24.50. But we are increasing our expectations for our customers, so we're kind of raising the bar in the sense that we're raising that Diversion Discount floor that I mentioned from 10% to 25%.

So you are going to get more of an incentive to increase your recycling percentage, and then at the same time we are increasing the ceiling so you're no longer capped out at that 75% I mentioned earlier. You now receive a discount for up to 100% of your efforts.

**Q.** So the Diversion Discount that's proposed on
Q. And when we looked at the residential proposed incentive for recycling and composting, is it largely the bare minimum, and so it's legally required to do? Now we're asking you to do a largely the bare minimum. You're doing what you're service, so you're getting a discount for doing what is now, you're required to have composting and recycling service minimums for that service level, so the rate increase by recycling, composting more --

A. Yes.

Q. And 29% is --

A. 54% minus the 25% floor that I mentioned earlier.

Q. And how is the 25% number selected for the floor?

A. You know, I would say it's part of the structure. That part is kind of the other element of the fixed cost. They got, we discussed earlier, is part of the residential structure. And so that element is trying to, again, reflect an increase, getting us closer our revenue reflecting our cost of service.

Q. Does it relate at all to the Mandatory Recycling Ordinance?

A. Yes, in the sense that right now you're kind of getting credit for doing what's required. Right now, you're required to have composting and recycling service, so you're getting a discount for doing what is largely the bare minimum. You're doing what you're legally required to do. Now we're asking you to do a little more than what is required, and so it's incentivizing those to recycle and compost more.

Q. And when we looked at the residential proposed structure. That part is kind of the other element of the fixed cost. That recovery that we got, we discussed earlier, is part of the residential structure. And so that element is trying to, again, reflect an increase, getting us closer our revenue reflecting our cost of service.

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Q. And again, this customer could also mitigate the rate increase by reducing the volume of each of the recyclables or compostables in that waste stream, it would be in this customer's best interest to change their service to reflect what they actually require. So the increase in recycling and composting would result in them receiving a lower increase or potentially offsetting the entire increase that we're proposing under the structure.

Q. And that's the -- now you're talking about the illustration that we were previously discussing, Exhibit 44?

A. Correct.

Q. Very good. Now moving to Exhibit 45, what's different about this customer?

A. This customer has a slightly higher diversion rate. This is the second most common service configuration for our apartment customer. And so they have a slightly different service configuration. They have 96 gallons, or half as much trash and recycling as the previous example.

Q. And again, this customer could also mitigate the rate increase by recycling, composting more --

A. I actually believe this customer is at the service minimums for that service level, so the opportunity is not there. But it is worth noting that they are not receiving as large of an increase. So the previous customer was going to receive a 16.7%. This customer will receive a 15.4%. So they're already doing a fairly good job at what I previously mentioned.

Q. Simply by reducing their volume of each of the recyclables or compostables in that waste stream, it would be in this customer's best interest to change their service to reflect what they actually require. So the increase in recycling and composting would result in them receiving a lower increase or potentially offsetting the entire increase that we're proposing under the structure.

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then there's a chart in the Director's Report. Can you explain what that chart's all about?
A. The one you're showing?
Q. Yes.
A. This just shows from an analysis that was also performed by Armanino McKenna in 2013, the weighting of the costs that we incur. So it shows that 7.23% of our costs at that time were related to pension expense, whereas 42.34% were related to fixed labor costs, payroll.
Q. So in this particular Director's Report and in a prior Director's Report, COLA adjustments were allowed year-to-year based upon a formula that is set forth by the Director; is that right?
A. Yes, correct.
Q. And this is that formula?
A. Well, this isn't the formula.
This is the weighting that that formula uses.
Q. So in this particular presentation, "Fixed Labor" represents 42.34% of the weighting in calculating what the COLA adjustments should be each year; is that right?
A. Yes.
Q. And how is the variation in fixed labor cost determined?
A. It uses the collective bargaining agreement increases that are proscribed, and those are based on various CPI.
Q. Based on CPI?
A. Yes.
Q. Which means?
A. "Consumer Price Index."
Q. Okay. And then some of these other factors here, like "Variable Labor" and "Biodiesel Fuel" and "CNG Fuel," they are based upon publically-available indices that are published from time to time?
A. Correct.
Q. In 2013, were any new categories added to the COLA calculation? I'll help you: Pension?
A. Well, pension was taken out. We proposed that pension -- oh, sorry, pension was added. Excuse me. We proposed that it be included as fixed labor and it was broken out; correct.
Q. So pension in 2013 for the first time was included as its own separate category?
A. Yes.
Q. And I believe their variable health and welfare was included as a new separate category as well; is that true?
A. Yes.
Q. Now, in terms of deciding what adjustment...
Q.  And what was the recommendation on pension that was ultimately adopted by the Director's Report?
A.  As it says there, we set the pension expense to projected increases, annual average of 0.31% for Sunset and Golden Gate and 1.25 for RSF.
Q.  And did that work for the first year following the rate? In other words, the rate in 2013 established what the rate would be from July 1, 2013, to June 30, 2014; correct?
A.  Correct.
Q.  And then beginning July 1, 2014, a COLA adjustment was made?
A.  Yes.
Q.  And did those particular numbers fairly reflect Recology's actual costs for those items in the years following the initial year?
A.  Well, it's all -- I'd rather probably speak in terms of the term of the rate. So over the term of the rate, you know, we're not talking about significant variances, but the total increase of it is about 1% per year. And for the collection companies, which make up the lion's share of the pension contributions due to the employees participating in that plan, it hasn't reflected the 0.31% increase that was allocated to that amount.

Q.  And was that particular percentage amount that was to be used, was that -- it's not described in the Director's Report, but was it described in the staff report?
A.  Yes, it was.
Q.  And the Director's report just adopted the Staff's report recommendation on that particular score?
A.  Yes.
Q.  All right. So let me now show you a page out of the 2013 staff report.
A.  Mm-hmm.
Q.  And this is page 16 of the staff report.
A.  Yes.
Q.  And does it also include a retirement account for retirees?
A.  There are other costs, yes. There's a retirement security plan that Local 350 participates in, yes.
Q.  And how much has that gone up over the last three or four years?
A.  Over the last three years, it's gone up 8.2% on average.
Q.  Is that reflected in the application?
A.  That is, yes.
Q.  What schedule?
A.  I believe it's G.2 or G.3.
Q.  Yeah, I think it's G.3.
A.  G.3.
Q.  Now, why would your proposal, which I understand to be to take the pension component and just wrap it into the fixed labor cost, why would that be an improvement?
A.  Well again, as I mentioned, one, it will simplify the process. Two, it won't require the involvement of actuaries in order to estimate. Three, it's also worth noting that when we negotiate these contracts, we negotiate benefits as a package versus kind of line-item-by-line-item. And so we've negotiated this particular element as a package with their compensation in the form of payroll; so including that as an item altogether, I believe, makes sense.
Q.  And again, I'm showing you page 17 from the Director's Report, which Ms. Pearce reminds me is already in evidence as Exhibit 15.

If the pension and the fixed labor components of the COLA were combined, what would that have been in 2013 in terms of what would have been the weight accorded to fixed labor?
A.  Approximately 50%.
Q.  So 41.91% plus 7.15%?
A.  Correct.
Q.  Have you taken a look at how the COLA would have been different in the past three, four years if pension had been wrapped into fixed labor?
A.  Yes.
THE WITNESS: Looks like the percentages were cut off in the margin, unfortunately.

MR. BAKER: A-ha, so we're going have to --

I think it's on the computer. Could you --

MR. PRADHAN: This will be Exhibit 46.

(Exhibit 46, "Historical COLA Trend [Recology]," was admitted into evidence.)

(Exhibit 46 was displayed.)

BY MR. BAKER:

Q. Kind of hard to read, but what do the different colors represent?

A. So the top line in blue is the Bay Area CPI, and the red line is the COLA if were to include pension as a part of payroll, and then the gray line their actual COLA over the last three years. And this was created just to illustrate it does not result in a significant change, and the Bay Area CPI was included as kind of a proxy for showing what our cost structure, how it may have changed overall. So as you can see, our COLA percentages are still trending far below that index, and this one incremental change doesn't result in a drastically different result.

MR. PRADHAN: Excuse me, Counsel.

Are we basically talking about the numbers on the second page, not what's up on the slide? On the second page of the exhibit, there seems to be

MR. BAKER: Yeah, I didn't realize the exhibit had two pages.

BY MR. BAKER:

Q. So tell us what the first page is and what the second page is.

A. Well, the first page is the second page in graph form; so it represents what's being shown on the screen. The second page is just those actual numbers that are being displayed in graph form. So since the people holding the exhibit, the percentages were cut off in the margin. You can reference them on the back.

Q. So in Rate Year 2015, the COLA adjustment was 2.24%?

A. Correct.

Q. And CPI was 2.79%?

A. Correct.

Q. And that if pension had been included as a part of the fixed labor cost, the COLA would have been 2.44%?

A. Yes.

Q. And similar numbers are provided for 2016 and 2017?

A. Yes.

Q. You've indicated that you think this would be a similar way of approaching it. Why simpler?

A. Well, you know, the last rate application fixed that pension increase based on, you know, an actuarial assessment that was performed by Towers Watson. My preference would be to not have it involve an actuary in something that I think obviously doesn't result in a significant change. It simplifies it. It's one less input that we have to worry about. And then also I think the structure would more accurately reflect how these benefits are bargained.

Q. Explain that a little bit.

A. When we negotiate payroll increases, a pension increase is health and welfare. It's part of a package. And so if we were to negotiate an increase, we look at all the components, and pension and payroll costs are negotiated together. So therefore, including those costs together, I think, just more intuitively makes more sense.

Q. Is it fair to say that some locals prefer increases in wages versus increases in pension and some might want a little more pension at the expense of more wages?

A. Right.

Q. And if you package it all together, you think it gives a more accurate reflection of what's going on?

A. Correct. Certain unions may want a sweeter pension versus higher wages, and vice versa; so it just combines those two elements.

Q. Lastly, let's turn to the subject of capital assets and how they're treated for accounting purposes in the application.

Let's focus first on the proposed West Wing.

A. Sure.

Q. How does the application treat that in terms of expensing the capital cost?

A. Currently is treated as a depreciable asset.

Q. And would Recology on reflection like to change how that's presented?

A. Yes.

Q. In what way?

A. We would like to move that to become a leased asset.

Q. What's the difference?

A. Essentially, a leased asset incorporates a financing percentage, a charge associated with that lease.

Q. Has Recology expensed capital assets as leases in any prior applications?

A. Yes.
Q. Can you describe that?
A. The last IMRF that Maurice discussed earlier, the first version of that that we're currently operating was a leased asset.

Q. And that was approved in 2001 rate hearing?
A. Yes.

Q. And what about trucks and those types of capital assets?
A. Yes, those are leased.

Q. In terms of the proposed West Wing, who would be the lessor and who is going to be the lessee?
A. Recology Leasing would likely be the lessor, and we would be Recology San Francisco, the lessee.

Q. Would that change in accounting treatment having any impact on the proposed rate adjustments?
A. Yes.

Q. In what way?
A. It would increase the collection rate increase of 1.5% approximately.

Q. And again, why is that a better way to do it?
A. You know, in terms of having discussions with our banks, we realized that this application contemplates a significant amount of capital outlay. And in those discussions, we realized that the cost associated for financing all of those capital improvements work to be significant and we need to ensure that we had a proper return on those investments, and this treatment would ensure that.

Q. And it’s also consistent with how Recology has treated certain capital assets in the past?
A. Yes.

Q. What about the two contingent schedules?
A. The consistent treatment that I described.

Q. Do you propose to submit amended schedules --
A. Yes.

Q. -- to the City promptly so that you can be asked about those when we reconvene on the 28th?
A. Yes.

MR. BAKER: I have nothing further.

Thank you.

DIRECTOR NURU: Okay. I think a maybe --

MR. BAKER: Oh, I do have something further. Sorry.

So this is Exhibit 47?

MR. PRADHAN: This would be 47.

(Exhibit 47, “Armanino COLA Report [Recology],” was admitted into evidence.)
presentation on rate structure, I’m going to start there.

Q. And I’d like to talk about the increases on various components of the residential collection rates.

A. Okay.

Q. Which you’ve already referred to on page 12 of Exhibit 2 which you were bringing up here earlier and you presented the technical workshop back in February.

So Recology is proposing to essentially, you know, maintain its current rate structure, meaning you have a fixed unit charge and volume charges for the three bins -- black, blue and green. And according to the exhibit, the unit charge is going up and then some of the volumetric charges are actually going down.

A. Mm-hmm.

Q. How did Recology arrive at the respective changes for each component of the rate? What was its process?

A. Logic?

Q. Yeah.

A. Well, as Mike and I were talking about earlier, the unit charge reflects the fixed cost of our business. And so, that’s why we’re trying to get closer to the actual economics which we showed through the

Armanino exhibit being about 60% of our costs are fixed. Whereas if you look at our previous revenue arrangement, having a $5 dollar fixed charge relative to, you know, the average customer’s bill for a 32/32/32 customer of $35 dollars doesn’t reflect the economics. 1/7th of those costs are recovered through a fixed charge whereas this new unit charge is $20 dollars of a $40.88 bill which is about 50%, which is closer to the 60% percent reflected in Armanino’s analysis.

The other consideration on the other components, as I mentioned earlier, you know, the green and blue cost to process exceed currently the black trash costs. And so increasing those incrementally over time will not disincentivize customers from doing the right thing; so continuing to have an incentive to move towards those composting and recycling services.

And then lastly, the rate structure also considered what I would consider a significant change in service for many of our customers, which is the standardization of the 16 gallon black and the 64 gallon blue. So the rate structure also contemplated this rollout, and since this rollout, will take about two years to complete. We wanted to ensure that the customers who are on the back end of that rollout plan will not be disproportionately financially hit by the

timing of the rollout.

And so you’ll notice that the price for a 32/32/32 customer currently will be the same as a customer that pays for a 16/64/32 for a single-family home. So if you’re on the front end of the rollout or the back end of the rollout, you know, it’s not going to have any economic consequences to the consumer.

Q. So were there other combinations of increases and decreases in the rate components that Recology considered when it was going through analysis to prepare for this application?

A. Yes.

Q. Can you --

A. Sure. Yeah, we had several considerations include a $10 dollar unit charge, and several iterations in between that and the $20 dollars. You know, unfortunately we were able to hit a sweet spot in terms of the number of customers that are as close as possible to the 16.4% rate increase that proposed using the $20-dollar structure while also, you know, maintaining that kind of economic incentive for the blue and the green that we discussed as well as, you know, that rollout timing. So yes, several different iterations were contemplated.

Q. So how will the increases in subsequent years work? Say you have a proposed 4.4% increase in the rates in Rate Year ’19 and a 0.6% of Rate Year ’21. How is that going to be applied?

A. I would anticipate that would occur through the same way at the timing in which we, you know, increase them as part of the COLA calculation; so it would just be an additive amount on top of the COLA.

Q. Each component would get an assessed increase?

A. Yes.

Q. Is there any significance to the charge with the black bin being two times the charge of the blue and green bins?

A. Meaning "significance," like in terms of --

Q. Is there some reason -- you know, you’ve kind of hinted a little bit to it. It allowed you to keep parity between one default service and what I think is probably pretty common right now.

A. Agreed. So as I mentioned, the 32/32/32 customer will pay the same as a 16/64/32 customer. The 16/64/32 customer will receive 16 gallons more of service in the recycling component on a net basis. In addition, we’re kind of incrementally stepping closer to cost of service; so right now, blue and green are $2 dollars roughly per 32 gallon. Moving it to
$5 dollars is a step towards more closely approximating our cost of service for those bins. And then lastly, it's also an incentive. As I mentioned earlier, it's cheaper on a per-gallon basis to recycle and compost for the consumer; so we're incentivizing good behavior. It's similar to how we do the Diversion Discount structure for apartments and commercial customers. This is also an incentive structure in that the blue and green service is half the cost of the trash. And then lastly, the hope is with the pilot program and the future black cart processing, the cost of trash processing will also be an incremental expense and eventually, you may see our cost structure more closely approximate the current rate structure that we are proposing.

Q. So I've noticed that you commented that the rate increase is being characterized as an average increase of 16.4% for single-family residences in the first year?
A. Yes.
Q. Will all customers experience the same percentage increase?
A. No.
Q. Can you speak to that a little more?
A. Sure. Just as many customers have different services, you know, different services will have a different increase. And so a customer who may be on the lower end of the spectrum on a volumetric basis -- for example, our 20 gallon customers right now, 20 gallon/32/32, will see a larger increase under the proposed structure. And we've contemplated easing that increase by providing them a one-year $5 dollar credit per month to help offset that increase.

MS. DAWSON: I think this would be a helpful time for me to introduce an exhibit that kind of walks through that. It looks at old versus new and small quantity generators.

MR. PRADHAN: This will be Exhibit 48. (Exhibit 48, "Sample Changes in Single Family Residential Charges [City]," was admitted into evidence.)

(Exhibit 48 is displayed.)

BY MS. DAWSON:
Q. It's a little small, but I hope -- yeah, there we go. That's a little bit better. So let's sort of look at the top first.
A. Mm-hmm.
Q. So we've talked a lot about the current default service levels and rates, which is the first column going from left to right.
A. Mm-hmm.
Q. So you can see that right now, that would cost a customer of that service configuration $35.18.
A. Mm-hmm.
Q. The new price for that same service level under the proposal would be $40.88?
A. Mm-hmm.
Q. And as we talked about and you showed in your exhibit, if you convert to the new service level, you end up with the same price?
A. Mm-hmm.
Q. If you decide to simply go down for the black bin but retain the 32 gallons for recyclables and compostables, customers would pay $35.66, which is pretty close to what they're actually currently paying.
A. Correct.
Q. So I think that you've said that there would be ways for customers to mitigate the potential impact of the increasing rates.
A. Mm-hmm.
Q. Is this the kind of trade-off you were describing?
A. Exactly. This is exactly what I was talking about.
Q. How does the level of service vary? I know you have an awful lot of different types of service profiles. But generally speaking, how do you see the distribution of your customers within those kind of bands of different bin sizes? Just at a high level.
A. I would say roughly half the customers fit into that 32/32/32 service configuration, single-family home.
Q. Okay. And are you concerned -- and I know that you’re of course intending to shrink the black and hopefully encourage people to stay with the same blue and green or at least increase the blue.
A. Mm-hmm.
Q. Are you concerned about some of the reductions, especially with the black, that you might disincentivizing any of the customers?
A. Can you clarify the question? In terms of -- are you saying if I reduce the black price from $25.90 to $10.44, people will be incentivized to keep using that black?
Q. Yeah.
A. I don’t know. It’s still twice as expensive as the blue and the green, so I still think that incentive remains.
Q. Your hope is that that’s going to be a sufficient incentive for people to recycle and compost more?
A. Right. For comparable service, you know, I hope that people wouldn’t be willing to pay twice as much.
Q. So how have the customer behaviors that you’re anticipating being factored into Recology’s projections in terms of migration of customers both in the apartment and residential rate structures that you’re proposing?
A. So I would talk about them in isolation. Residential, we’re assuming that 90% of the 32/32/32 customers will accept the 16 gallon trash and the 64 gallon blue overall. But then we’re expecting also that the 20% of those customers that accept the 16 gallon black will maintain the 32 gallon blue, which is kind of reflected in the $35.66 customer that you’ve shown in the fourth column from the right in terms of offerings.
Q. Okay. And then you factored those base assumptions into what the revenue assumptions were?
A. Into our revenue assumptions, correct. Yes.
Q. And the apartment rates, was there any thought to that?
A. In the apartment rates, there is a 1% migration per year included in our revenue requirement.
Q. Okay. But Towers Watson was your actuarial company for purposes of pension estimates?
A. Yes, and continues to be now.

Q. Okay. That's all I have on rates for now, but I'd like to briefly move on to a discussion about some of the rebates to ratepayers.
A. Sure.

Q. From the Zero Waste incentive funds.
A. Okay.

Q. And I have another exhibit. But before I get there, I actually have some questions that are specific to the rate application and some of the use of these funds.
A. Okay.

MS. DAWSON: So I'm going to ask -- These are two pages of the rate application.

Q. So it's the table here. So we're looking at page 13 of Recology Sunset Scavenger, Golden Gate, and Reserve fund. But there's -- I'm going to get to Zero Waste in a minute. There's actually another table that's included in the back on the supporting documents --
A. Yes.

Q. -- that I want to show. Okay.

MR. BAKER: Just for clarify, the first page that you showed was page 13 of the Summary of Assumptions, which is part of the application, Exhibit 1.

MS. DAWSON: Correct.

BY MS. DAWSON:
Q. And this next table was in the back, the very back tab --
A. Yes.

Q. -- where there were a lot of supports of capital programs and other things.
A. Yes.

Q. So Mr. Porter, I believe there was a bit of a discrepancy between the table "Summary of Assumptions" and this back attachment. And in particular, I want to draw attention to this "848" number, and I'd just like you to speak to it a little bit. It has to do with the use of the Special Reserve funding to cover the incremental costs --
A. Yes.

Q. -- associated with the transport and use of the landfill --
A. Yes.

Q. -- under the landfill agreement.

BY MS. DAWSON:
Q. So we're looking at under Tab K, at the very back of the rate application, there's a table described as "Special Reserve Fund and New Revenue Fund, 2017 Rate Application." And then what I just want to bring to Mr. Porter's attention is that there's a difference in -- there's an implicit assumption here that ties this table together with the table in the back, and I'd just like Recology to speak to that relationship more explicitly so that it's clear.
A. Sure. So one thing of note, in working with staff at SFE, we are planning to provide a revised schedule for K at next hearing; so that will change. But I believe your question in particular was related to the 848,000.

Q. Yeah. What I'm trying to understand is what that number represents and for you to explain it, and why it is that it's affecting your proposed use of the application of the Special Reserve that would ultimately go to the ratepayers. So I'm just trying to get you to talk through what's going on with these numbers.
A. So when we requested the initial reimbursement out of the Special Reserve fund -- and maybe for those that are not familiar, it'd be worth a little bit of history here.

Q. Mm-hmm.
A. In January of 2016, Recology changed landfills from Altamont Pass/Waste Management to Hay Road. And in lieu of a rate increase associated with this change, we requested that we utilize funds out of the Special Reserve fund, which was created as part of that disposal agreement to, you know, counteract any unforeseen expenses that may be incurred related to landfill costs.

And so it was discussed and approved through Rate Board resolutions that we would be able to utilize these funds to offset those cost increases. And at the time, the anticipated costs were a little in excess of $12 million dollars. $12 million dollars was granted for approval to be transferred to the new reserve fund for the purposes of reimbursing us for these additional costs.

Since that time, costs have exceeded the initial estimates. As a result of some changes in addition to fees through an amendment to the landfill agreement, the first amendment, and therefore our costs
have slightly exceeded -- well, maybe not slightly, have exceeded the initial estimate as a result.

Q. Okay. So at this point, this is a projected number?
A. Yes.

Q. We're not exactly sure how we'll end up ending Rate Year '17?
A. Correct.

Q. So let's return to the other table.
A. Sure.

Q. In your rate application, you're proposing to make transfers over three years instead of all at once. Can you speak to the reasoning behind that?
A. Absolutely. So the Special Reserve fund, as I mentioned, it was created to pay for any -- so it's kind of to shield ratepayers, in a sense, to protect the ratepayers from any unforeseen expenses and liabilities associated with the landfill disposal.

And since that agreement at Altamont hasn't long passed, we believed it would be most appropriate to decrease the money that remains in that fund over time in the event that liabilities were to arise. And as time passes, it's our belief that the risk of a liability arising decreases and therefore we would decrease that fund, you know, systematically over the expected term of the rate.

Q. And it's possible that the projected larger-than-anticipated costs of transporting and disposing at the new landfill agreement, you might be requesting use of that Special Reserve fund in some amount, yet is a projection to mitigate that?
A. At the time this application was prepared, yes, this was my estimated cost. That may differ. The hope would be it will be less. Any difference would be reflected in the offset to the ratepayers.

And it's also worth noting that the schedule in Section K does not contemplate any further interests earned on these funds, which will be earned, but wanted to be conservative when presenting these rate increases -- didn't want to overpromise in terms of the amount of rebates that we'll provide; so we will provide an estimated amount as a part of that revised schedule to reflect that.

Q. So it's possible at the end that you -- we would eventually be able to reach the desired threshold between the old reserve and the new reserve, and given that we're earning interest in this fund, it's possible we wouldn't need to do anything more to reach the new reserve balance?
A. Correct.

Q. Okay. And at the end of all this, if we do what's going on. So the top table shows the amounts that have been deposited into the fund, and then the lower shows the distributions and the uses of the funds.
A. Mm-hmm.

Q. So by the end of Rate Year '17, a total of $31.7 million will have been collected and deposited into the Zero Waste fund over the past five years, more or less.
A. Mm-hmm.

Q. Of that amount, Recology met the diversion goals for the first two tiers of Rate Year '13, which is the year right before the last application review process, and earned $3.1 million --
A. Correct.

Q. -- about 10%.
A. Mm-hmm.

Q. Consistent with the Director's Report from 2013, a portion of the unearned funds was used to offset cost of living adjustments, or the COLAs that would have gone into effect last July; is that correct?
A. Yes.

Q. And that was worth about $4.3 million?
A. Correct.

Q. Okay. So the Director's Order from 2013 also permitted Recology to request unearned Tier 3 and 4...
funds for investments in new technologies to increase diversion. And we've already heard about the use of that, with the investments at Recycle Central, which took another $12.4 million or 39%, as well as expenditures for a textile program; is that correct?

A. Correct.

Q. So that leaves about $11.6 million, which is 37% of the value that Recology is proposing to use to offset a portion and the rate increase for Rate Year '18, which would begin July 1st.

A. Right.

Q. So how much of the total increase is being offset by using those Zero Waste Incentive funds?

A. I believe 3.5% or 4% roughly. I don't have that number in front of me, actually.

Q. So while you're contemplating that number, I think that's about right, 3.8%.

A. Okay.

Q. Why is Recology proposing to rebate these funds in one year and not spread them out over three years like you've done with the Special Reserve?

A. Good question. Special Reserve fund, as I've mentioned, there's some potential liability that would be associated with that money whereas the Zero Waste Incentive account doesn't have a corresponding potential liability associated with it. And the Director's Report that you referenced earlier also instructed us to rebate those funds, and so we are trying to do so as quickly as possible. And so by doing that, it would be rebating that in the first year of the rate increase.

Q. So a portion of the funds of the Zero Waste Incentives are actually collected by Recology San Francisco; right?

A. Correct, yes.

Q. So why then is Recology applying the entire fund balance to offset the cost of collection rates?

A. Very good question. It basically comes down to -- one second, I have this written down here. Bear with me. I wish I had notes.

It comes down to the fact that most of the Zero Waste Incentive funds are collected through the collection companies by the ratepayers. And then also 90% of Recology San Francisco's revenue comes from the tip fee paid for by the collection companies. And so therefore nearly all of the Zero Waste Incentive funds were, in effect, paid for by the collection ratepayers.

Q. And so is there a corresponding difference if you were to apply them one way or another?

A. There is. If we were to apply it to Recology San Francisco, it would have a slight detrimental effect to the collection ratepayers. It would increase their rate slightly. Very small.

MS. DAWSON: Okay. So I have some additional questions, but I'm going to hold them for now.

DIRECTOR NURU: Okay. Does the Department of Environment want to ask questions?

Okay.

THE WITNESS: I think the Ratepayer Advocate did have questions.

DIRECTOR NURU: Okay.

MS. DILGER: Thank you.

EXAMINATION

BY MS. DILGER:

Q. Back to the per-unit fee again. Apologies for any redundancy here.

A. No, that's okay.

Q. But we've heard about its impact on low-waste producers, but also multi-unit buildings that are two to five units. We're hearing a lot of concern from ratepayers that this would disproportionately affect them. When we look at the graphs, it's comparative to the single-family residents. But for many of these multi-units, they share bins, they share pickups. So if you could again explain the justification for this quadruple price crease from $5.16 to $20 dollars per unit.

Q. So one thing I would like to just reiterate is we can't really look at one piece in isolation. You have to really look at the entire structure as a part of a whole. This dwelling unit charge is part of a whole unit charge. So we're decreasing our black charge from $25 dollars -- roughly $25 dollars to $10 dollars; so I don't see any questions about that, unfortunately, but --

Q. Of course not.

A. Maybe next time. So basically since we're decreasing that price, we have to offset that decrease with an increase to the dwelling unit charge, and I already described why that's necessary because of our cost structure. It's also worth noting that volumetrically, multi-unit buildings aren't significantly different than single-family homes in the Sunset. They're typically using 32 gallons of trash service in some cases. And so if you look at, first of all, the cost and the volume, they're relatively similar. So it's -- you really have to kind of look at it as a whole package versus just this one particular charge.

Q. How do you address multi-unit buildings that have different practices? Anyone that's lived in a
Q. And since so many of them are managed by property managers, sometimes by landlords who live in site, any opportunities there are for outreach and education there -- just want to put on the record -- a lot of the multi-unit buildings do want to change, but don't know how to. And that's been a consistent feedback.

A. I would ask you to maybe direct that question to another -- maybe the general managers.

Q. Thank you.

A. No problem.

Q. Last week we heard a bunch of different types of recycling that you'll be able to accept with this new program. We would like know were those products go, but for you the question is what's the cost for this new diversion, specifically if textiles and plastic wrap -- what is the cost in conjunction with the amount of diversion percentage-wise?

A. Are you asking how much it does cost to recycle these materials and how much is included in the rate increase?

Q. Yes.

A. No specific cost element has been included in the rate application associated with the recycling of textiles. We have included that set of corresponding increase in revenue for the additional materials we anticipate to recover, but no specific costs have been included other than some additional workers to sort the material.

Q. Okay. It was brought up earlier the lifeline rate for low income people is actually, I believe, you have to earn less than $24,000 dollars.

A. Yes, that sounds right.

Q. Do you know the last time this rate was updated, and if it is --

A. I believe it's updated annually.

Q. Okay. And then the last question I have has to do with revenue and profit. Many ratepayers are concerned about the cost of real labor and services versus Recology's profit margin. How much profit does Recology make annually and is it limited by your contract with the City?

A. I believe it was discussed in the first hearing that we have a regulated operating ratio requirement of 91% to 89%. Right now, the rate application contemplates a 91% O.R., which is lower, and that we have 2% of incentives in the form of Zero Waste Incentive tier goals, which are the additional 2%; so it's a half a percent per tier, four tiers.

And to kind of answer the overarching theme of the question, it's my understanding that many municipalities in California have a similar structure and that our regulated profit margin is consistent with those municipalities.

Q. So you would say it's pretty comfortable to a regular U.S. city, or just in California?

A. I can't speak to U.S. cities in general, you know, but I can say that in Northern California, in some municipalities, this structure exists and our profit margins are consistent with those.

DIRECTOR NURU: Any additional cross-examination from the City? No?
Q. And the 89% O.R., which would equal more profit --
A. Yes.
Q. -- results from success under the Zero Waste account?
A. Correct. We have disposal goals -- four tiers of disposal goals.
MR. BAKER: During the break I indicated to staff that we didn't have any other witnesses today, and we're happy to do the impound account. But I just wanted to let you know that Mr. Quillen and Mr. Negron are both available to talk about the head count questions that were raised last week and about the Abandoned Waste/Bulky Item alternative analysis that you also requested.
So it's your pleasure, we're happy to provide those witnesses or wait till next week.
MS. DAWSON: I think we'd happy to hear that.
DIRECTOR NURU: We can. Yeah, we can ask those questions if you're ready to ask them.
MS. DAWSON: It's more them presenting back to us.
MR. BAKER: So maybe we'll have both of them come up for efficiency, and we can take care of that.
DIRECTOR NURU: Okay.
Q. Ms. Dawson last week asked you a couple of questions referencing Exhibit 29. Specifically she asked you some questions about the Recology Sunset Scavenger/Recology Golden Gate head count changes from 2013 to 2016. Have you had a chance to review those changes and are you prepared to explain them today?
A. Yes, I did review her Exhibit 29. Forgive me if I start just coughing. I'm just getting over a cold, but I will plow through this.
So Ms. Dawson, I have your overview reference as far as Schedule G.1 for head count, table 3.
Q. Let me just jump in real quick.
You said you're looking at table 3 on Exhibit 29; is that right?
A. Yes.
Q. And why are you referring to table 3 instead of table 2?
A. I think it's much easier at a high level to explain our head count from a solid number. As far as the number of employees, we had finance run the numbers basically average per year on solid head count instead of going into a full-time equivalent, which can be a little challenging. There's a lot of variables there with overtime and casual employees. If you're okay with that, let me just talk strictly to table 3 and just explain the delta on those.
A. That's fine.
Q. Thank you. On the actuals from 2014, '15 and '16, the difference between '14 and '16 came out to 22 additional head count. I broke that down by two categories: union, and then exempt/non-exempt.
Under the union, we netted an increase. And when I say "net," there's a lot of movement between different programs. Ultimately, I'm responsible to make sure that everything gets picked up and the customers get serviced based on the changes in the economy and the operational challenges that we have day to day.
So the net increase was an additional 14 in the union side, and that was mainly to support the progressive growth of the AMC program when we first rolled it out. It also supported -- what we talked about earlier, the Bulky Item Recycling growth of almost 41% percent increase from Rate Year '14 to '16, and then we saw significant increase in debris box service.
Tonnages from '14 to Rate Year '16 went up almost 17%. And if you were to reference the Schedule F.1, you'll see revenues starting at $13 million and in Rate Year '16, almost went to $21 million. So there was significant growth in the city that supported -- that netted this 14 increase on the union side.
On the exempt side, we had two major categories -- two major strategies. That was to support waste zero and push diversion -- and to the Ratepayer Advocate earlier, a lot of outreach for our commercial and our apartments. And it also supported debris box growth in those two categories, and that was a net
effect of 8.

So combine 14 on union and 8 on exempt/non-exempt, the net effect was 22. And I can speak -- if you want, I can cover '17 and I can also cover '18?

MS. DAWSON: If you'd like, you can go ahead and finish up on the years.

THE WITNESS: So for '17, which is what we're in right now -- so the jump-off point from '16 was 643. We're estimated to be at 651. That's an additional 8 by the end of Rate Year 2017. That's estimates because we're still out recruiting in some of the portions.

The net 8 increase was broken down again, union was plus 4, and exempt/non-exempt, it was an equal amount of 4. Under the union side, we continued to have growth in the Bulky Item Recycling. Just between '16 and '17, there's an additional 14% estimated based on our trends today. We increased support in our call center, and we also supported two additional mechanics -- getting into the weeds now -- in support of trucks with the addition of the capital expenditures as far as collection vehicles for AMC and other programs.

On the exempt side, we went up 4 in that effect. Again, that supported our waste zero strategy. We're really aggressive on community outreach and diversion. We did add specifically a shop supervision

we're currently recruiting today in this rate year for a night shift supervisor. We also bumped up our route maintenance specialists who support the Routeware.

We implemented in this rate year alone, we have -- Golden Gate I believe has about 40 Routeware units that are deployed through various amount of collection vehicles, and then Sunset Scavenger has an additional 20; so we had to add staffing to manage the new data. There's an incredible amount of data that we're collecting both in the operational-side and in the customer service-side that we'll need to manage; so that's in for this rate year. Again, the delta 8 from 643 to 651.

And what are we asking for in Rate Year '18?

So the the jump-off point is 651. We're asking for a total for 2018 of 694. That's an additional 43. The 43 is broken down again. On the union side, the net increase is 35, and on the exempt/non-exempt is 8, totalling 43. On the union side, we are looking at -- as outlined in the rate application I talked about these last two hearings, the diversion focus service adjustments, to Porter's point, the 16 gallon/64 gallon plan that we have operationally. And also to implement those route changes for the trash/recycling/compost along with the continuing growth in Abandoned Material
doing the right thing as far as three-bin system at a much higher volumetric level. And we're looking specifically at a service compliance manager.

All the different nuances to diversion and managing your bill, we're finding that we're going to need somebody in the system to make sure that the folks are in compliance; so we're constantly working with San Francisco Environment and the Public Works to ensure that service levels meeting the minimum standards as outlined in the rates. So that's the overall transition from 2014 to our projected 2018.

MS. PEARCE: Would you like to talk to Mr. Quillen about his head count changes or should I go on to speaking to Mr. Negron about AMC and Bulky Item Recycling?

MS. DAWSON: Let's keep going on the collection side, Counsel.

MS. PEARCE: Sounds good.

BY MS. PEARCE:

Q. Last week Ms. Dawson also asked you some questions about whether Recology has considered combining the Bulky Item Recycling program and the Abandoned Materials Collection programs we discussed last week and if doing so, might achieve some efficiencies. Have you had a chance to think about that question and come to any conclusions?

A. Yes. Yes, we have.

Q. Have you prepared a slide that outlines a potential combined program?

A. Yes.

(Exhibit 55 is displayed.

MS. PEARCE: All right. I'd like to move the admission of Exhibit 50, I believe. It's a slide entitled "Abandoned Material Collection/Bulky Item
Q. All right. Mr. Negron, describe if you would what this slide shows and what Recology's proposing.

A. Okay. On the left side, I have broken down what we've proposed in Rate Year 2018 in this current rate application. For the Abandoned Material Collection, I'm asking for 12 drivers or basically 6 crews, and again, continuing supporting the standard level agreement of servicing the requests within four hours during business hours.

Q. And just to make it clear, the 12 drivers and six crews, how much is a proposed increase over what you're currently operating with?

A. We're currently operating at 10 per program.

So for each of these programs, we're asking for 2 additional or a total of 4 drivers and 4 trucks.

So in the Bulk Item Recycling program, we are also requesting 12 drivers, 6 crews. We're currently at 10 with a response time currently of equal to or greater than 48 hours on an appointment system. So in summary, we have a limit of 600 calls per day. If I receive 600 requests or greater than 600 requests before 12:00, I ask that I'm able to route those the next available day. And the reason why is because we have patterns in our data where we'll receive 800 to 900 calls in one day. And right now under the Bulk Item Recycling, we schedule it and we can manage that, and under the Abandoned Material Collection, we pick it up within four hours.

And I can tell you that if we get greater than 600 calls, we will make AMC the priority because I know that's an important program as far as keeping the city clean. So when we prioritize, we will go after the AMC first. So that's our proposal as far as keeping the head count status quo.

DIRECTOR NURU: Just for clarification.

"A day" is seven days a week?

THE WITNESS: It's a good question, Mohammed. So right now "next day," under the Bulky Item Recycling, is next business day. So if the customer calls after 12 o'clock on Friday, we will schedule it for Monday. Abandoned Material will continue seven days a week. We will pick that up.

We can talk -- I mean, I can go back and do an analysis. But if we were to include Bulky Item...
but frankly, the surges occur every month. At the end of the month and at the beginning of the month, we see significant calls in Abandoned Material Collection almost doubles. We'll go from 250 calls a day to 420, and then our partners at Public Works are just as vigilant out there at the end of the month and at the beginning of the month and they'll augment all those calls from what they're seeing in the field. So it happens monthly.

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

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

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

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

So I think it's going to be very successful.

You're going to see some increases in both programs.

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

And maybe that means you add not a whole crew, but some relief people to kind of supplement. I'd at least like to look at what the cost implications of that might be, because the reality is the public is really concerned about abandoned material and they clearly love the bulky item program, and I'd like to be able to meet the service requests that we're getting now.

A. I just want to be clear.

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

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

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

BY MS. DAWSON:

Q. And one thing you might find is if you offer BIR on the weekends, maybe you'll have less abandoned materials. I mean, if there's this relationship with move in/move out -- which is why it's attractive to combine the two programs; right? There's the sense that they would be mutually beneficial if they're combined.

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

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

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

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

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

A. That's correct.

Q. Okay. So based on those figures, we're also estimating that the amount of materials that the single-chamber recycling trucks could collect above and beyond?
A. Yes, we aggressively routed the trash
component of the split-body assuming that these great
programs are going to get folks to change behaviors. So
when we reduce from 119 to 106 split-bodies, it was to
aggressively load up the 50% side of the trash.
And that leaves the drivers working at -- what I'd like
is an 8-hour day, right at the limit, which then affords
them an opportunity to pick up as many green containers
as possible until they reach their -- ultimately want
to reach their max capacity.

But to your point, there is built capacity for
both systems as long as the behavior moves in the right
direction. And we will not need to add trucks -- I
talked about this last time. If things go right and I
reduce the trash side, I might be able to consolidate
more trash -- the 50/50 vehicles and just kind of follow
the migration with the same capital.

Q. So there's more room for operational
efficiencies, potentially, there over time provided that
the migration away from the black happens. Because it
sounds like you believe you have enough capacity in the
green.
A. I do. Yes.

Q. Okay. So your proposal increases proposes to
add 23 new daily routes. And based on the information,
I think that -- like you said, you're targeting an
8-hour day, and we're believing that's because you're
trying reduce over time. So does that mean that a
reduction in the number of routes -- so say we reduced
by one -- we would then end up increasing the number of
overtime hours. What does that exchange look like?

A. Hypothetically, if we were to reduce by one
route, we would -- to my point earlier, trash is at its
max capacity. We would need to -- you have a cause and
effect. So basically you might push the crews into two
loads -- a very light second load, which doesn't make
sense for them to do a round trip to pick up a couple of
blocks that pushed them over the limit where they just
can't pack anymore.

Q. What about recycling, though? If you were
given these single-body recycling trucks and you know
you have excess capacity, I think it's really the
recycling routes we're focused on in terms of potential
reduction in the number of routes and whether or not you
think you could -- I guess in terms of transportation --
cut the routes a little longer.

So you'd be adding a little bit of overtime
and eventually we'd be able to kind of hit a sweet spot
where we have fewer routes with a little bit of built-in
overtime, and that would reduce both the head count
cost and the equipment cost -- understanding there's
a balance here that you don't want to push too much
overtime. But we're interested in understanding what
that trade-off would look like.

Q. When we routed these single-stream blues and a
pilot demonstrated that it's a matter of time, there is
plenty of stops for the drivers to go there and chase
these blue containers. The problem is you physically
run out of time before you max out the vehicles; so it's
just a matter of stops. So we do have built-in
capacity. I definitely don't want to give up the
capacity and push these guys greater than 8 hours.

Right now, they're averaging 7.5 as far as the
single-stream organics, but these same drivers would now
be pushed almost 8.20 in their day picking up
single-stream single-chamber recyclables. It's not a
matter of capacity; it's really a matter of time and
number of stops.

Q. It sounds like you're concerned about building
overtime into the schedule as something that you would
just consider doing. Can you describe a little bit more
about why that would be -- that you consider it to be an
operational challenge for you?
Q. What is the impound account?
A. The impound account is a fund that is used to cover specific costs for the Department of the Environment and the Department of Public Works.

Q. And the impound account is funded by the rates; is that right?
A. That's right.

Q. And there is about $19.7 million allocated to the impound account in Rate Year 2018 under the application. Is that your understanding?
A. Is that right?

Q. Is that application, that amount, commensurate with the size of past rate applications?
A. I can comment on the Department of the Environment's portion. And the Department of Environment, what was listed in the final rate application was $11,210,800. And we actually have a revision of that reducing that by $10,000 dollars. So I would actually like to introduce an exhibit on that.

THE WITNESS: Let's do that.

MR. PRADHAN: That can be Exhibit 51.

(Question continues with Exhibit 51, "Impound Expenses [City],"
was admitted into evidence.)
Q. And I understand you have some more information for us regarding the specifics of these different programs; is that right?
A. Yes. I would actually like to introduce another exhibit.
MR. PRADHAN: This will be admitted as Exhibit 52.
Q. Mr. Macy, as we hand out Exhibit 52, can you explain what it is?
A. Yes. So this is a summary description of the different programs in the Department of Environment that are being funded by funds from the impound account. I won't go into detail of all the funded projects described here, but I will say that most of these projects were to implement policies and programs directly to move the City towards its zero waste goal. This includes, for example, within Zero Waste and outreach program areas. And I will say with regards to that, the previous exhibit had a separate budget for outreach. In this description, the outreach activities are folded within the other program areas. So within

Zero Waste, the average associated with Zero waste and so forth is within that description.

So for Zero Waste, the primary emphasis has been on implementing our Mandatory Recycling and Composting Ordinance, which includes helping ensure all properties have adequate refuse service and are participating in our separation programs. As part of that effort, much outreach is needed for neighborhood campaigns, residential curbside and apartment program outreach, commercial and institutional assistance, school programs, special collections, events, and so forth.

We also have continuing work to do with implementing other related ordinances and programs, including reducing food service ware and packaging waste, checkout bag ordinance, various city government programs. We have nonprofit grant programs to help strengthen waste prevention, reuse, and other recovery infrastructure, and Construction & Demolition debris recovery. These are examples of the many programs and activities within Zero Waste and our outreach efforts that constitute much of the expenses.

I also want to point out that as has been noted in previous testimony by Recology, recent economic and social factors such as a construction boom and

So we are seeing an increase requested for that outreach effort.

Q. So I guess just to quickly summarize, the funds that would be allocated to the impound account would be spent at least by the Department of Environment on the activities you just described and are summarized in Exhibit 52; is that right?
A. Yeah, that's a major portion of it. There are additional efforts as described in the latest exhibit, other program areas such as toxics and so forth.

Q. Right. Could you describe for us the approval process for expenditures from the impound account? How do you ensure that funds from that account are spent appropriately?
A. Sure. There's several sets of processes that the Department goes through in developing programs and developing budgets. First, we have a strategic planning process for the Department that we go through, and it and it outlines priority areas for each of our programs.

Secondly, we have an analysis of what we do every fiscal through the budget process. We prepare a budget internally, and then that is taken to our

To address this challenge, as has been presented in the rate application, we have the most significant facility and program changes since the introduction of the three-stream program in 2000. This includes changing which bins certain materials will belong, with more going to recycling with the proposed 16 gallon trash and 64 gallon recycling.

So all this is necessitating requiring a large multilingual multi-touch outreach effort to all sectors in San Francisco to really remind everyone that what is the -- the how, the what, and the why of participating in our programs and all the associated messaging and collateral out there as well to change that message.

So we are seeing an increase requested for that outreach effort.
I also say that we have internal checks and balances on spending the money to ensure that they're the approval for expenditures. These are run through program managers and through the Deputy Director or Director, depending on how much, to authorize any expenditure of the impound account. We also track all our time that staff spends through an online tracking system; so all our hours are logged to make sure that impound account hours are properly allocated and accounted for.

So we have a number of different ways to ensure that the money is appropriately used.

MR. PRADHAN: Thank you. I don't have any further questions.

DIRECTOR NURU: Okay, time is running. I think we should go to public comment. But before that, I would ask the Ratepayer Advocate if she had any last questions.

Okay. Can I see a show of hands of people who would like to speak. All right.

PUBLIC COMMENT BY LLOYD THIBEAUX

Mr. THIBEAUX: My name is Lloyd Thibeaux.

The thing I have is I'd like to know how many grants are going to be presented to get a grant. That makes any sense to you?

DIRECTOR NURU: Yeah.

Mr. THIBEAUX: I know they're going to make a grant, so why the 16%? And then 5% percent after that -- so it's not 16% and 5%, it's 16% and 5% compounded. So it's probably about a 35% rate. Somebody could answer that. I guess I came up here to talk because everyone's been up here talking.

And then the other thing is that how much money are they making on this recycling right now? I know they're making a fortune, so why are our rates going up? And we have a duplex and we only have three cans. So why should we be paying for six cans?

We don't have enough garbage. The guy that stays downstairs, he's gone most of the time and we're old and we don't have much garbage anymore; so we should be able to get smaller cans than bigger cans because we really don't fill the cans up right now, except for the recycle. We do that.

And what's the other thing I have here -- and then with all this computer stuff they're doing, whenever you have technology, people are laid off. They said they're not laying off people, but they're going to lay people off because Facebook, Google, everybody lays somebody off because they got more technology. So to say you're not laying anybody off, you're going to keep the people, I don't think that's right either, the story they're telling us.

That's what I have to say.

DIRECTOR NURU: Thank you for your comment. Next person.

MR. PILPEL: David Pilpel.

I don't have a lot of time and I'm going to try to cover some territory here, and I've got a funeral in an hour for Natalie Berg.

DIRECTOR NURU: You have five minutes.

MR. PILPEL: Thank you.

Mr. PILPEL: The DPW website that I've talked about at prior hearings, more stuff keeps popping up there, which is great. Same thing on the Recology side, in particular, the RSF schedules that were made into a PDF only have the odd pages. It's a 66-page document; there are only 33 pages. It's on the odd pages.

The transcript from the first hearing is supposed to be made available by today, I think. Will that be posted on the website any time soon?

MR. PRADHAN: We'd have to check if it's ready.

Mr. PILPEL: That'd be great.
at Pier 96.

DIRECTOR NURU: If you give them to us, we'll accept them and turn them in as evidence.

MR. PILPEL: Can we reserve 53 and 54 for those?

MR. PRADHAN: Yes.

MR. PILPEL: Thanks.

More on the iMRF and Pier 96. In the future -- just a couple of other quick points. I'm not sure that we've heard yet the total rate impact of the current proposal, understanding that there's some tweaks going on plus the expected COLA or range of COLA numbers and with the contingent schedules, if they're triggered as anticipated. So it certainly appears to be about 16.4% in the first year, but I'm not sure when we get to Rate Year '20 what the likely increase will be in that year with those kinds of assumptions.

There was discussion earlier of trash processing. I'm not sure that we got a clear answer on the cost of processing trash versus the disposal cost, and to some extent, what the diversion impact is. It may not be a cost-effective investment, but it may be a worthwhile Zero Waste investment and we should be able to look at least what the cost impact is. Just touching on Pier 96 for a second, I think

And just finally, on the apartment example, the six-unit apartment building that only 32 gallons of composting, that's actually less than the minimum service requirement. Under the current rate order, the minimum service requirement for composting is 8 gallons per unit per week. So 8 times 6 is 48. They shouldn't be in a 32 gallon; they should be at least 48 gallons of service, and the smallest container available for that is a 64 gallon green. So if I'm going to get a somewhat disproportionate impact by only having a 32 gallon container available for a single-family residence, then I want to be darn sure that a multi-family building is held to that same minimum service standard.

Thank you. More next week.

DIRECTOR NURU: Thank you.

one of the real unknowns there is the cost of the seawall work at Pier 96 and whether the Port absorbs that or some of that goes into the Recology lease cost. That may also be a schedule risk for the iMRF project.

Probably talk about Tier 3 and 4 another time and this vacuum thing that I found buried somewhere.

There's been discussion about proportionality, and I haven't heard enough about the proportional impacts of rate changes and potential disproportionality for different customer types. Julia got into that a little bit today, but I think there may be some other examples and ways to look at whether the impacts are being felt proportionately or not throughout the rate types or the rate pays.

I'm also not sure if the low-income discount programs and, for that matter, the base and variable rate cost allocations and cost recovery are comparable to the SFPUC or other utility types, or for that matter, other garbage and recycling collection companies elsewhere. It may be, it may not be, but I just don't see enough evidence in the record on how those things compare.

And just some final points, then I'm done.

The change in asset treatment today, I think, the pretty substantial. $100 million dollars of asset

investments, whether it's a direct investment or a lease, has impacts on rates, has impacts on customers. I continue to believe we need to look at ratepayer equity and how much more investing in whether ratepayers have an interest in that.

The way that the Company might treat lease costs for tax and other incentive credit, I don't understand that enough, but perhaps rate consultant can look carefully at how that flows through and what the impacts are.

And just finally, on the apartment example, the six-unit apartment building that only 32 gallons of composting, that's actually less than the minimum service requirement. Under the current rate order, the minimum service requirement for composting is 8 gallons per unit per week. So 8 times 6 is 48. They shouldn't be in a 32 gallon; they should be at least 48 gallons of service, and the smallest container available for that is a 64 gallon green. So if I'm going to get a somewhat disproportionate impact by only having a 32 gallon container available for a single-family residence, then I want to be darn sure that a multi-family building is held to that same minimum service standard.

Thank you. More next week.

DIRECTOR NURU: Thank you.
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