

# Responsible Recycling Task Force

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Meeting #3 – June 18, 2018



# Agenda

- **Desired Meeting Outcome:** Share information about waivers, surcharges and contracts
- **10:00 – 10:20:** Welcome & Introduction  
*(Jeff Gaisford & Julie Colehour)*
- **10:20 – 10:50:** Waivers Panel  
*(Jeff Gaisford & Meg Moorehead)*
- **10:50 – 11:10:** Surcharges  
*(Mike Young)*
- **11:10 – 11:55:** Contracts Panel  
*(Hans VanDusen & Jeff Brown)*
- **11:55 – 12:00:** Action Items & Wrap Up  
*(Julie Colehour)*



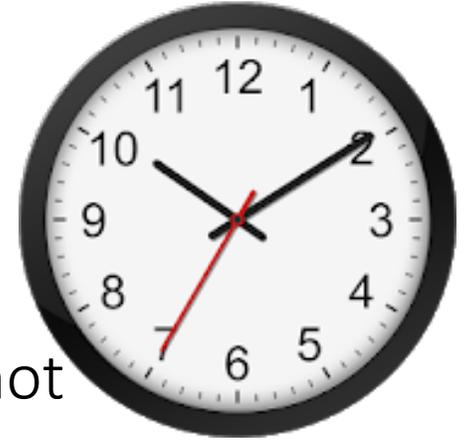
# Task Force Goals

- **Short Term Goal:** To help identify near-, mid- and long-term actions in response to reduction in export markets for mixed recyclable materials due to China National Sword policies.
- **Longer Term Goal:** To help establish commitment across the region to responsible recycling and domestic sorting/processing of curbside recyclables.
- **Outcomes:** Prepare a report with actionable items and recommendations for future action by all; if possible, develop interim tools for communications and other topics that are more immediately available.
- **Role of Task Force:** Not to make decisions, rather to learn about the problem, understand activities that are being implemented elsewhere and opportunities for change. They will provide guidance on next steps that will be brought back to county advisory committees and decision makers.

# Problem Statement

- **Next steps:**
  - Red flag feedback due Wednesday, 6/20
  - Finalize

# June 1: Meeting Minutes



- One edit incorporated:
  - *Matt Stern* replies, stating that Waste Management would not be in the room if they didn't win the contract, highlighting that the challenge the China Sword disruption and figuring out how to build a system for the future. *Matt* continues, noting that after 30 years of recycling plastics that plastic industry has not stepped up to help *to recycle low-grade plastics included in our programs.*
- Next steps:
  - Approve and share revised minutes with RRTF and public

# June 1: Recommendations



- Remove plastic bags and film from the commingled bin
- Remove shredded paper from commingled bin, being careful to work out messaging in advance
- **Next steps:**
  - Incorporate recommendation into final outcome document and provide guidance to county advisory committees and decision makers



# Waivers in King County

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Jeff Gaisford & Meg Moorehead, KCSWD

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# Overview of Waivers

- Republic requested cities and the county to approve to dispose of unmarketable recyclables.
- Six cities granted waivers from their contracts, that require materials to be recycled.
- Most waivers were for short periods and have ended.
- One waiver did not have an end date. One was for 180 days (ending in September).
- Individual approach and format for waivers.
- County requested cities notify if waivers are approved.
- Three waivers currently in place.

# Criteria for Waivers

- City contract provisions and actions.
- Material Recovery Facility Best Practices.
- Elements of a Temporary Waiver.
- Reporting.

# Q&A

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# UTC Rate Setting for Recycling Collection

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Mike Young

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Section Supervisor, Water and Transportation

Regulatory Services Division

Washington Utilities and Transportation Commission



# Legislative Authority

RCW 81.77.030: The Commission shall supervise and regulate every solid waste collection company in this state,

- (1) by fixing and altering its rates, charges, classifications, rules, and regulations.
- (5) By requiring compliance with local solid waste management plans and related implementation ordinances

RCW 81.77.130 and 81.77.020-this authority does not apply to cities that undertake themselves, or contract for, the collection of garbage and/or recyclable materials.

# Rate Setting Concepts

- Rates are set on a “cost plus return” basis
  - Utilizing the Lurito-Gallagher methodology
- Garbage rates cannot subsidize recycling rates
  - Recycling must pay for itself
- Cost causer bears the burden
  - Person generating the solid waste or recycling is responsible for the cost to collect and process or dispose of the material
- Revenue generated from the material belongs to the customer
  - RCW 81.77.185 companies can retain up to 50% under revenue sharing; what is not retained must be returned to the customer

# Traditional Rate Setting

- Cost of collection is reflected in the (Tariff) rate billed to customers.
- Rates adjusted through a General Rate Case
  - ✓ Audit of company-wide financial data
  - ✓ Determination of rate base-value of assets used in collection process
  - ✓ Calculation of rate of return
  - ✓ Price-out to apportion costs to appropriate lines of service
- Typical costs include:
  - ✓ Driver and labor hours
  - ✓ Truck operating and repair costs
  - ✓ Recovery of capital equipment costs
  - ✓ **Processing or disposal of material costs**
- Commodity Credit is amount returned to customers reflecting the value of the commodities when sold at market
  - ✓ Monthly bill “credit” that off-sets collection costs
  - ✓ Adjusted yearly in a filing with the commission
  - ✓ Utilizes simple tracker formula with true-up for regulatory lag

# Unstable Recycling Markets

- Reduced revenue received for sale of commodities
  - Commodity credits take a downward trend
  - Company continues to give customers credits while receiving zero revenue
- Increased processing costs for contamination reduction, storage, transportation, and disposal
  - Processing charges passed to collection company fluctuate monthly or weekly
  - Disposal costs increase as more contaminants removed
  - Transportation, storage and disposal costs increase for materials not marketable
- Netting revenue received, and costs incurred, now results in additional cost to the collection company

# How can UTC alleviate the cost burden?

- General Rate case
  - Company can file to update costs for recycling collection and change tariff rates
- Commodity credits
  - Adjusted to include additional processing costs
- Surcharges
  - Customers receive an additional charge on their bill for processing recyclable commodities

# Commodity Credits

- “Commodity Credits” become “Commodity Debits”
  - Monthly charge to customers in addition to collection rate
  - Can be calculated using same tracker methodology already in place
- Can alter the projection period for commodity credits
  - Allows the company to be more reactive to market changes
  - Prevents overpayment of credits
  - Requires the company to file more often

# Surcharges

- Surcharges to recover the incremental changes in processing cost
  - Applicable to collection companies utilizing affiliate-owned MRFs
  - Based on previously audited costs from a general rate case
  - Only covers variable operating costs affected by market volatility
- Surcharge is a temporary monthly charge to customers appearing on their bill as a separate line item
  - Commission is allowing 90 days currently
  - Separate from commodity credit/debit and collection rate; now 3 lines on billing for recycling
- Based on costs incurred by the MRF to reduce contamination until longer-term solutions can be sought.



# Surcharges

- Types of costs allowed:
  - ✓ Increase in labor to operate MRFs
  - ✓ Increase in maintenance costs to keep facility running
  - ✓ Increase in utility costs to keep facility running
  - ✓ Increase in disposal costs of contaminants
  
- Costs not allowed:
  - ✓ Capital costs for new equipment
  - ✓ Increased overhead or managerial costs
  - ✓ Other costs not directly associated with processing material

# So far

- Commodity credit adjustments
  - Eleven companies utilizing alternate projection periods for calculation
  - Most credits have become debits, and the cost continues to increase
- Surcharges
  - The largest operations (King and Snohomish Counties) utilize affiliate MRFs and have requested surcharges
- The commission is encouraging general rate filings to update costs and eliminate confusing extras on customers' billing statements

# What's Next?

- The commission expects companies filing surcharges to file general rate cases within the next year or so, once markets have stabilized or longer term solutions are implemented
- The surcharges will either be rolled into collection rates or into commodity credit calculations
- The commission will continue to work with companies, counties and other stakeholders to seek solutions, and adjust to the “new norm”



# Q&A

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# Seattle's Contract & Risk Sharing

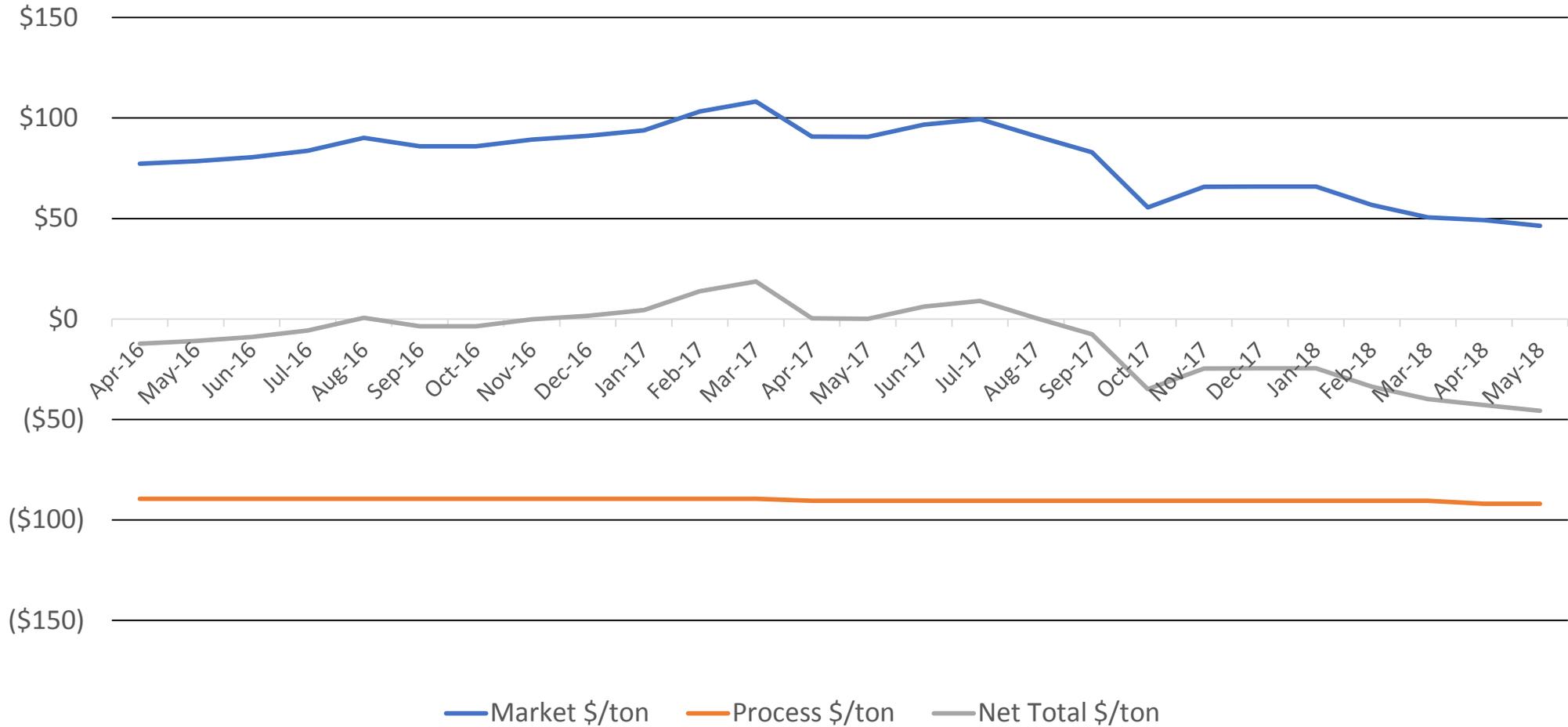
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Hans VanDusen, SPU

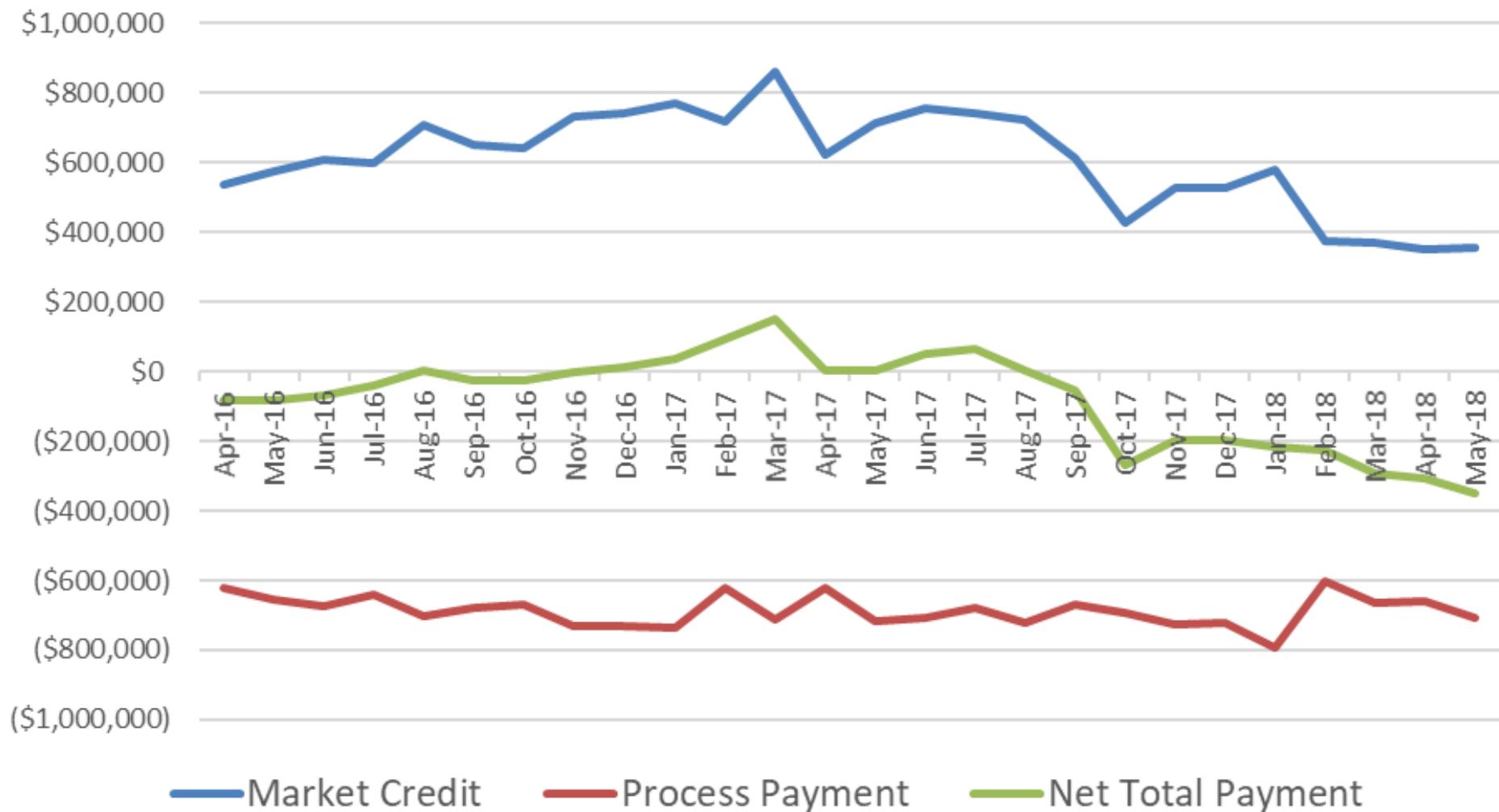
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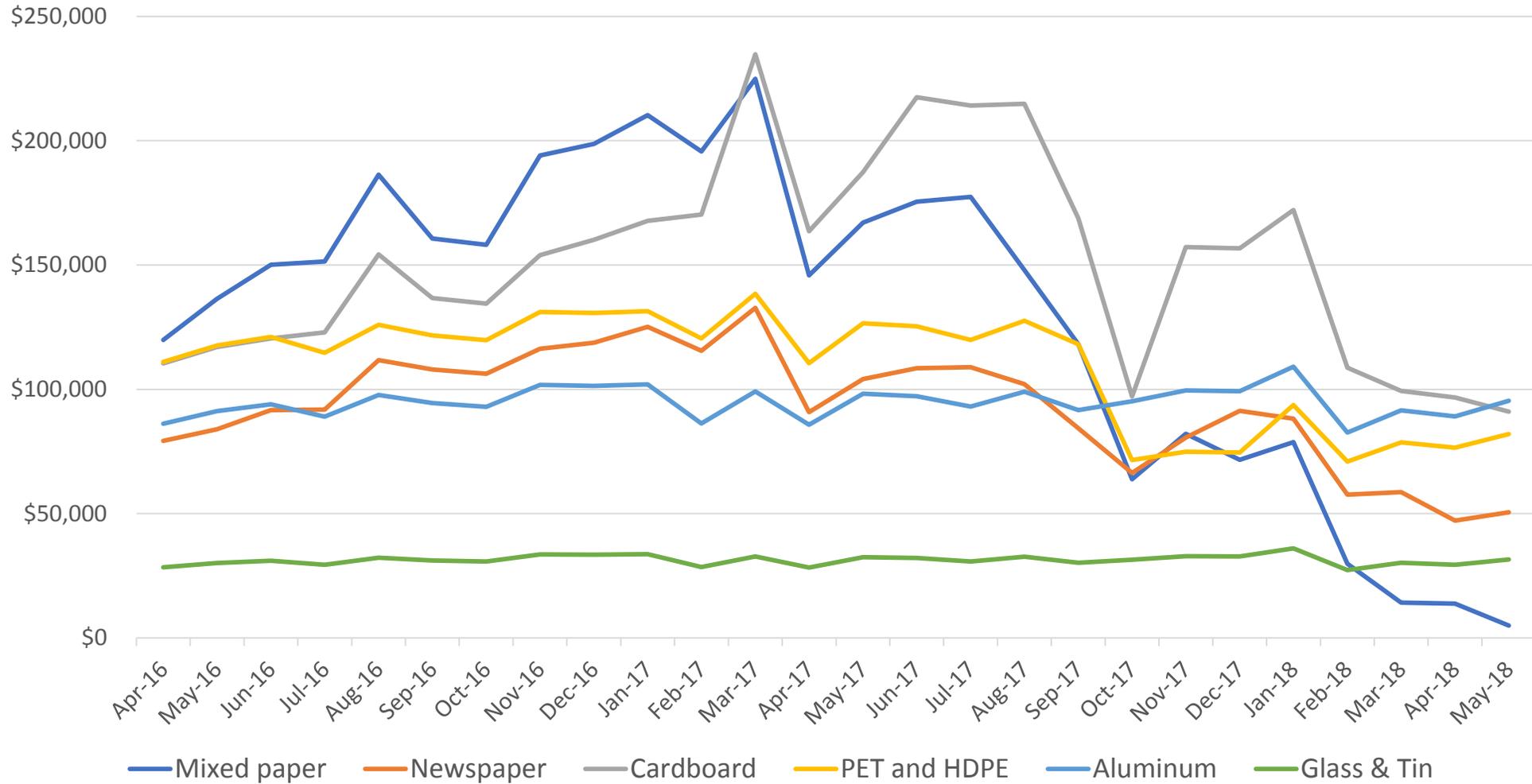
# SPU Processing Payments & Market Credits (\$/ton)



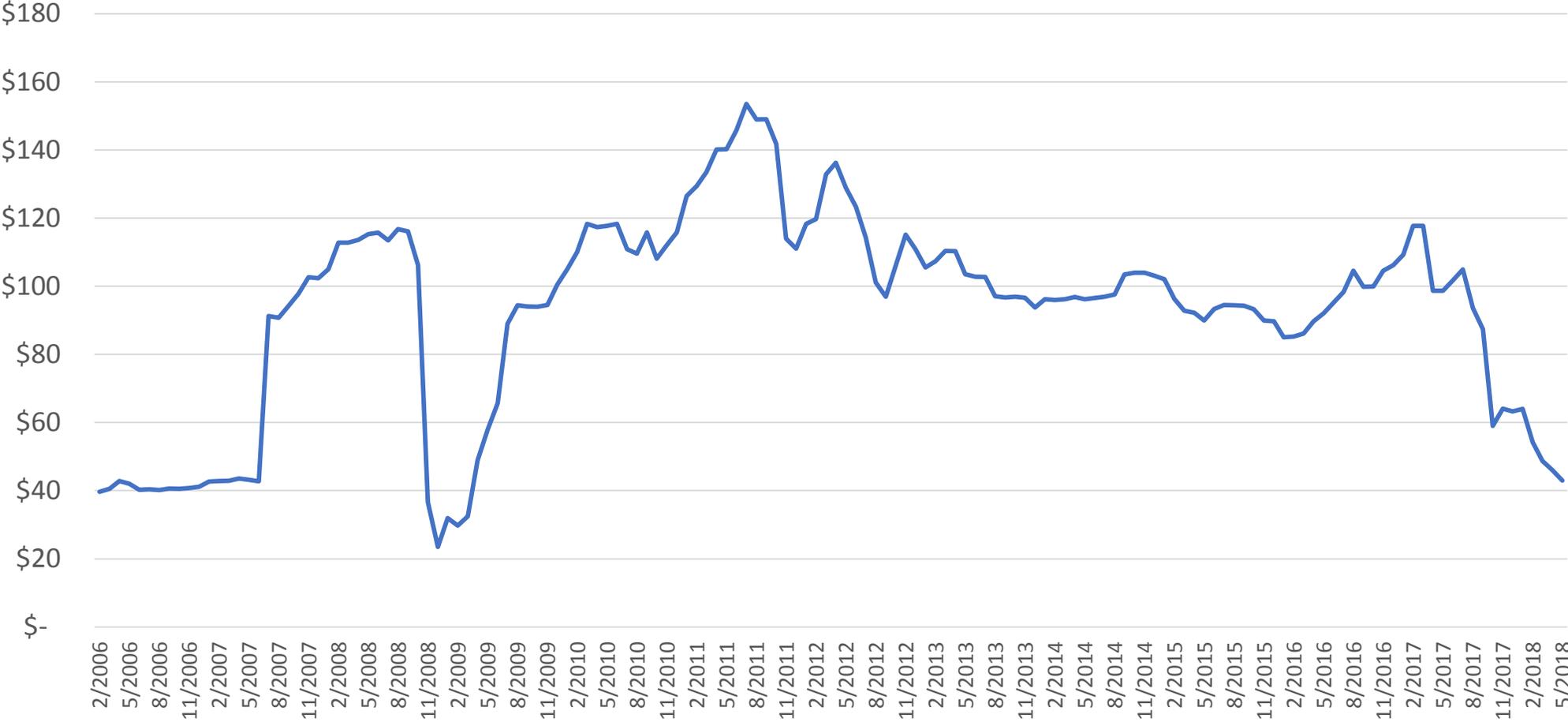
## SPU Processing Payments & Market Credits (\$/Month)



# SPU Commodity Credits (\$/Month)



# SPU Market Index - 2006-2016 Aggregate (\$/ton)



# Collection Contract Commodity Value Approaches

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Jeff Brown, Epicenter Services, LLC

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[jeff@epicenterservices.net](mailto:jeff@epicenterservices.net)



# Early Revenue Sharing Approach

- Percentage revenue split
- Floor/ceiling approach
- Seattle approach – pay for processing, City get revenue
  
- Pros: 
  - Risk management, benefit to city or ratepayer
- Cons: 
  - Auditability, monitoring, processing level

# Current Risk/Reward Approach

- Contractor gets all revenue
- Contractor makes processing level and marketing decisions
- Pros: 
  - No city auditing or involvement in decisions/specs
- Cons: 
  - Contractor must accurately forecast average revenues over term and plan for risk

# Potential Future Approach: Indexing

- Use Seattle market monitoring as a basis for indexing
- Track variations in reported market values to provide credit/debit for revenues above or below baseline set in contract.
- Debits/credits go to customer or City quarterly or annually

# Indexing (continued)

- Pros: ✓
  - No city auditing
  - No involvement in decisions or specs
  - Continued contractor incentive to minimize contamination
  - Much lower risk to contractors
- Cons: ✗
  - Tracking index needs to be manage
  - Actual revenues don't necessarily match index values

# Recycling Market Price Fluctuations

## Average Price for Curbside Recycled Materials Puget Sound Region, 1985-2018



Source: Sound Resource Management Group, Inc. database on Northwest recycling market prices. This graph and graphs for individual materials available for download at: [www.zerowaste.com](http://www.zerowaste.com).

# Existing Contract Modification Issues

- Don't know assumptions at start of a contract
  - What average value of recyclables was assumed
  - What average cost of processing was assumed
- Contracts were generally not designed to be easily opened.
- City can't second guess decisions by contractor (long term relationships vs. spot markets, local vs. export, etc.)

# Existing Contract Model - Questions

- How much market variance is within the normal bandwidth of business risk?
- How are costs and revenues audited?
- Who gets to make marketing and processing level decisions?
- If input stream improves, who benefits?

# Existing Contract Model - Questions

- When markets improve, who decides whether operations should be modified to lower costs?
- Should profit be allowed on additional investment & processing costs?
- Are there offsetting reductions in contract or business conditions that should be considered?

# Where to from here?

- Individual or collective city evaluation/negotiation?
- Framework to determine contract opening, reasonableness of costs, triggers to start/adjust/discontinue, etc.
- Move forward with implementing contamination protocols
- Overall materials management: what was lost when drop-off was replaced by curbside.

# Q&A

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# Action Items & Wrap Up

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Julie Colehour

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# Action Items & Wrap Up

- Action items, recommendations & take-aways
- Next meeting: *Fiber & Plastics*
  - Fiber Processing
  - Plastic Processing

**Date:** July 18, 9:00am – 11:00am

**Location:** Bothell City Hall, 18415 101<sup>st</sup> Ave NE, Bothell, WA 98011

**Parking:** Garage, surrounding streets and neighborhoods

**Room:** Council Chambers Room (Town Hall)

| Date               | Topics Covered  |
|--------------------|---|
| April 30           | <i>Task Force Goals; Responsible Recycling Framework; Current Conditions; Communications</i>  |
| June 1             | <b>Curbside Materials and Communications</b> <ul style="list-style-type: none"> <li>• <i>What's in the Bin (Quality vs. Quantity)</i></li> <li>• <i>Communications (Harmonized Messaging)</i></li> </ul>  |
| June 18            | <b>Contracts, Waivers, Surcharges</b> <ul style="list-style-type: none"> <li>• <i>Waivers and Surcharges (Responsible Recycling is Not Free)</i></li> </ul>   |
| July 18            | <b>Fiber &amp; Plastics</b> <ul style="list-style-type: none"> <li>• <i>Fiber Processing (Domestic Processing and Markets)</i></li> <li>• <i>Plastic Processing (Domestic Processing and Markets)</i></li> </ul>  |
| August 24          | <b>Financing &amp; Infrastructure</b> <ul style="list-style-type: none"> <li>• <i>Financing Options (Responsible Recycling is Not Free)</i></li> <li>• <i>Recycling Infrastructure Systems (Quality vs Quantity, Domestic Processing and Markets, Responsible Recycling is Not Free)</i></li> </ul> |
| September 19 or 28 | <b>Creating Demand</b> <ul style="list-style-type: none"> <li>• <i>Legislative and Policy Option (Create Demand for Recycled Feedstock)</i></li> <li>• <i>National and Private Sector Efforts/Opportunities (Create Demand for Recycled Feedstock)</i></li> </ul>                                   |
| October 26         | <b>Final Recommendations</b> <ul style="list-style-type: none"> <li>• <i>Review and discuss final findings and recommendations</i></li> <li>• <i>Discuss next steps</i></li> </ul>  |