Exhibit: Pension Costs

Background

Recology Inc. currently contributes $25 million per year to a defined-benefit pension plan (the Plan), which serves a portion of the former and current employee-owners of multiple Recology operating companies. The SF Recology Companies are allocated a share of that annual contribution based on their respective share of the total service cost as calculated by the actuaries.

The rate application includes projected cash contributions for the SF Recology Companies' share of the Plan's projected contributions for RY 2024 and RY 2025. For RY 2024, the projected contributions are $23,532,442, and for RY 2025, the projected contributions are $17,599,530. Recology's Plan actuary currently projects that the Plan will reach full funding as of June 2025. Accordingly, the rate application includes lower projected contributions in RY 2025 to account for the Plan reaching projected 100% funding during that rate year. A funding level of 100% will be determined by comparing the asset value to the estimated pension obligation in quarterly reports issued by the Plan asset manager. When the asset value is equal to or exceeds the estimated pension obligation, the pension plan will be considered 100% funded. Market volatility, affecting plan assets, and any pension obligation changes could affect these projections, and further contributions may be required in the future based on actual Plan asset returns and changes to service levels or benefits.

Historically, rate applications included a constant pension cost with no projected phase-out of that pension cost. With this application, however, the pension cost included in the rates is projected to diminish and possibly to be removed altogether because Recology's Plan actuary projects that 100% funding will be reached during RY 2025. Like all expenses included in the rates, pension costs are projected and actual costs will vary from projections. The SF Recology Companies therefore propose to use the balancing account and the annual rate adjustment to adjust rates for changes to pension contributions during and beyond RY 2025 so that rates fairly reflect necessary contributions to the Plan.

In addition to the Plan costs, the SF Recology Companies also incur costs for Local 3 pension contributions and 401(k) matching for non-union employees. These amounts are projected to be $1,408,286 in each of RY 2024 and RY 2025. These pension costs are assumed to remain constant regardless of the status of Plan contributions. The line item "pension" in the rate application and rate reports includes these amounts in addition to Plan contributions.

Pension Component of Annual Rate Adjustment

The rate application recommends adjusting rates annually beginning with RY 2026 by the rate adjustment, which is the sum of the COLA and other revenue requirement adjustments such as ZWI. The SF Recology Companies propose that pension be treated in the same manner as the use of and expiry of ZWI rebates in calculating the rate adjustment for the upcoming rate year. The projected change in pension contributions is the difference between the contributions used in rate projections in the current rate year and the projected contributions for the next upcoming rate year. The percentage impact on the rate adjustment for the upcoming rate year would be calculated by dividing the projected change in the pension contributions, grossed up for the operating ratio, by the estimated revenue from ratepayers for the current rate year. See the COLA and Other Annual Rate Adjustments exhibit for an example of the calculation.

Balancing Account

If the Plan reaches 100% funding sooner than projected, as determined by the Plan asset manager in its quarterly reporting of the pension assets less the pension obligations, the pension contributions will be suspended unless the funding at any subsequent quarter-end falls below 98%. For example, if the asset manager report for March 2025 – expected to be issued in April 2025 – indicates 100% funding, contributions will stop as of May 2025. In this example, this difference between actual contributions and contributions included in the rates would be incorporated as part of the calculation of balancing account activity for RY 2025.

If funding falls below 98% at any subsequent quarter-end, Recology will contribute up to $2,000,000 per month until the Plan reaches 100% funding once again. For example, if the asset manager report for June 2025 – expected to be issued in July 2025 – indicates 98% or less funding, contributions of up to $2,000,000 per month will be made in August, September, and October 2025. In this example, this difference between actual contributions and contributions included in the rates would be incorporated as part of the calculation of balancing account activity for RY 2025 and future years.

Any difference between actual Plan contributions and Plan contributions included in the rates will be accounted for as part of the adjustment to the notional balance of the balancing account, calculated at 100% of the above- or below-target profit.