

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of :

Sanitary Service Company, Inc. – Tariff Revision

Case No.: TG-082062

PETITION FOR APPROVAL TO  
CONTINUE EXISTING RECYCLE  
COMMODITY TRACKER

**I. INTRODUCTION**

COMES NOW Sanitary Service Company, Inc. (“SSC”) and files this *Petition for Approval to Continue Existing Recycle Commodity Tracker* seeking the Commission’s permission for the company to continue charging the recycle commodity tracker that is currently stated in its Tariff No. 6 for an additional six months. The market for recycled materials has suffered a severe downturn in the past few months, and commodity prices are not expected to recover any time soon. Perpetuating SSC’s current recycle commodity tracker will mitigate extraordinary fluctuations in customers’ rates in the next cycle, and provide time for the markets to stabilize. For SSC to continue its existing commodity price tracker, it requests an amendment to the original order authorizing it to implement deferred accounting, and an exemption from the rule stating the method for estimating revenues or charges from the sale of recyclable materials.

**II. BACKGROUND**

In 1996, the Commission approved a deferred accounting mechanism for SSC’s residential curbside and multi-family recycling programs. See attached *Order Authorizing Carrier to Institute a Deferred Accounting Mechanism for Residential and Multi-family Recycling* (Docket No. TG-960419, April 1, 1996) (“Order”). The “Commodity Price Tracker” was intended to address concerns regarding the impact of changing commodity values on the net recycle rate the customers were paying. Under the Order, the commodity value of recycled materials was taken out of the total costs for collecting recyclables, and stated as a separate line

item. The Order approved the Commodity Price Tracker mechanism for SSC, and allowed the company to begin making a deferred adjustment on January 1, 1997.

The Order stated a methodology for the Commodity Price Tracker. It has both a look-forward and a look-back element. To begin, the company calculates the average of actual revenues and expenses from processing recyclable materials in a most recent historical test period. From that data, future revenues or expenses are projected and then converted to the next year's debit/credit for the commodity value portion of the Tracker. In addition, the actual revenue/expenses from the test period determines the amount needed to true-up the prior year's Tracker amount. The commodity value projection and the true-up together are equated to a per-customer, per-month figure, which is then shown on a separate line item on the customer invoice. The Tracker may be either a credit or a debit, depending on what markets did during the preceding test period and how that compared to values used for the prior year's Tracker.

Under the Order, the anticipated recycle value was based on the most recent three-month average, but allowed for an "other period found acceptable by staff." Order (p. 2). However, in 2001, when the Commission's rules governing solid waste collection companies were amended, a new regulation was adopted partially codifying the recycle commodity tracker process. Under that regulation, a twelve-month test period is required:

Companies that estimate the revenue from the sale of recyclable materials collected in residential curbside programs as part of a deferred accounting program to return recycling revenues or charges to customers must use the most recent twelve-month historical period to estimate the revenue for the next twelve months.

WAC 480-70-351(2). Thus, since the adoption of this regulation, SSC has used a test period of twelve months to project its future commodity rate. It has used the same test period as the basis for trueing-up its revenues/expenses from the prior year.

The Order permitted SSC to employ its deferred accounting mechanism beginning January 1, 1997. It directed SSC on every January 1 thereafter to estimate future prices, and make an adjustment based on a comparison of the amounts predicted at the beginning of the

tracker period versus the amounts actually realized. Thus SSC's current Tracker as stated in Tariff No. 6 is set to expire on December 31, 2008.

In compliance with the terms of the Order and Commission rules, on November 14, 2008, SSC filed a request for a new Tracker to be effective January 1, 2009, based on the expenses and revenues from the processing of recyclable materials during the previous twelve months.

### **III. SANITARY SERVICE COMPANY'S REQUEST**

Instead, SSC herein requests that its existing Commodity Price Tracker be extended for an additional six-month period to June 30, 2009.<sup>1</sup> Because doing so would vary from the provision of the Order that requires an annual adjustment every January 1, SSC is filing this Petition asking for an amendment of that requirement. And because strictly speaking the Tracker extended for the first six months of 2009 would not be based on the most recent twelve-month historical period, SSC is also seeking an exemption from WAC 480-70-351(2).

#### **A. Basis for asking to continue charging SSC's existing Commodity Price Tracker.**

When the November filing was made, representatives of the company met with Commission Staff to discuss how the Commodity Price Tracker might play out in 2009 and 2010. For most of 2008, the markets for recyclable materials were thriving, and application of the methodology stated in the Order and in the regulation took SSC's Commodity Price Tracker for residential curbside service from a customer debit of \$0.38 to a customer credit of \$0.09.<sup>2</sup> However, at the very end of the test period, starting somewhere around the end of October, prices for recycle commodities dropped precipitously. Throughout the country, due to the downturn in the economy, the markets for recycled materials plummeted. See attached (David Pierson, Wastewater Market in the Dumps, Los Angeles Times, December 9, 2008; Matt Richtel and Kate Galbraith, Back at Junk Value, Recyclables Are Piling Up, The New York Times, December 8, 2008; John Dodge, Incentives for Recycle Programs Lose Their Steam, The

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<sup>1</sup> Replacement pages are being submitted along with this Petition.

<sup>2</sup> A different amount was in the initial filing because the calculation made to meet the 45-day filing deadline necessarily was based on estimates for November, but substitute pages were later submitted when the actual amounts were known.

Olympian, December 10, 2008; Warren Cornwall, Recycling Fees May Rise as Demand, Prices Drop, The Seattle Times, December 1, 2008). The markets in Whatcom County have felt the same pinch. By way of example, in the first week of October, SSC was paid \$41/ton for mixed waste paper; in the first week of November, it had to pay \$80/ton to the processor.

SSC and Staff discussed how these market conditions would impact customer rates, and expressed a shared concern about the prospect of “rate shock.” The problem is not with the next Tracker in isolation – the problem is with the 2009 Tracker in combination with the one after that in 2010. SSC prepared hypothetical projections of what its Commodity Price Tracker might be in 2010, assuming the markets remained at the current level. If the November 2008 commodity values continued through 2009, and if SSC’s Tracker as filed were to be approved, SSC’s Tracker could hypothetically go up to an alarming debit amount of somewhere around \$2.33 for residential curbside customers in 2010. Residential customers could possibly be forced to pay wildly varying Trackers, going from a 2008 debit of \$0.38, to a 2009 credit of \$0.09, to a 2010 debit of \$2.33.

Both SSC and the Staff are interested in an alternative that would “flatten” the customers’ rates. In discussions, various ideas have been considered, but the one that seems the most straightforward is the one that SSC herein requests: if its existing Commodity Price Tracker is extended for an additional six months, it would mitigate the effect of crashing markets in 2009 on the customers’ rates. By keeping the current Tracker amount on the bills, the customers will not see any immediate change, and possibly by July, there will be greater certainty in the recycling commodity markets.

**B. Rational for granting SSC’s request.**

Because the original Order approving SSC’s Commodity Price Tracker requires a January 1 renewal date, SSC believes it must seek approval by the Commission to extend the Tracker’s renewal date to July 1. Also, because continuing to charge the existing rate varies from the rule requiring use of a twelve-month historical period, this Petition is intended to meet

the standards for consideration of exemptions from and modification to the Commission's regulations, as stated in WAC 480-07-110(2)(c).

This request is in the public interest, which is the standard for consideration of a rule exemption or modification under WAC 480-07-110(c). Because the Commodity Price Tracker is a deferred accounting mechanism, if it is extended the actual revenues or expenses would nonetheless be captured and passed through directly and fully to the customers. Therefore, the revenue effect is neutral, but SSC believes charging fluctuating Commodity Price Trackers produces an unnecessary hardship on the customers. Unless this request is granted, ratepayers will be have variations in their Tracker rates that may be larger than necessary, because continuing to charge the existing Tracker is not inconsistent with the goals and policies of a deferred accounting mechanism.

Further, to customers, the spikes in the rates will be exactly backwards from their perceptions of the actual cost conditions: now, when the plummeting recyclable commodity market is highly publicized, the ratepayer will have a reduction in charges; in 2010, when the markets (hopefully) stabilize, the charges will go up, possibly dramatically.

SSC's request is intended to moderate these variations, with no impact to SCC's net income. The dollars involved concern value received from the commodities collected from customers and later returned to them intact. The issue is purely one of timing and mitigating the hardships imposed on wide swings and fluctuations in customer rates.

This request is consistent with the policy underlying the initial goals of implementing the Commodity Price Tracker in the Order. It passes through the costs and expenses of processing recyclables, and perpetuates the ratemaking approach that "equitably balances the interests of solid waste providers and their customers against the risk of changing commodity values." Order (p. 2).

With regard to the variation from WAC 480-70-351(2), SSC's request is more like a modification than an exemption from the rule because it only seeks a temporary "hold." If its request is approved, in July 2009 SSC would at that time undertake a true-up based on a

historical period of eighteen months instead of twelve. It would, however, use a twelve-month period for projecting the revenue need for the next Tracker, as needed to comply with WAC 480-70-351(2). Therefore, only a minor, temporary modification of how the rule is implemented is needed.


#### IV. CONCLUSION

Markets for recyclable materials have always been subject to volatility. Indeed, the deferred accounting mechanism was adopted in the first place to address concerns regarding the impact of changing commodity values. However, by all accounts the current precipitous drop is highly unusual and, hopefully, temporary. SSC respectfully requests that the Commission approve its request to extend the existing Commodity Price Tracker in Tariff No. 6 for six months so that rates are not unnecessarily spiked and customers are not unnecessarily alarmed.

DATED this 15th day of December, 2008.

Respectfully submitted,

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SERVICE DATE

APR 01 1996

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of a Petition of	)	
Sanitary Service Co., Inc., G-14	)	DOCKET NO. TG-960419
for a Deferred Accounting Mechanism	)	
	)	ORDER AUTHORIZING CARRIER TO
	)	INSTITUTE A DEFERRED ACCOUNTING
	)	MECHANISM FOR RESIDENTIAL AND
	)	MULTI-FAMILY RECYCLING
.....	)	

By letter dated December 28, 1995, Sanitary Service Co., Inc., G-14, (Sanitary) proposed to institute a deferred accounting mechanism (Commodity Price Tracker) for the present rates of their existing residential curbside and multi-family recycling programs to become effective for one year beginning January 1, 1996. Both Commission staff and the company have had concerns regarding the impact of changing commodity values on the net recycle rate customers must pay, particularly in times of increasing prices. The company proposes that its net existing rates be held constant until January 1, 1997, at which time a deferred adjustment for 1996 will be made for changes in commodity values, and every January 1 thereafter.

In the past, recycle rates were total costs of collection, processing, etc. less the estimated value of the commodities collected. Under this new approach, the gross collection rate will be separately stated and subject to normal docketing procedures whenever rate changes need to be made. For the commodity value portion, however, at the beginning of each relevant time period an estimate will be made of the future revenue received from sales of commodities collected. This amount will then be converted to a per customer per month basis and shown as a credit offset (if the commodities have value) or debit (if the company must pay to have them taken away) add-in to the gross collection rate for recycling service. This credit/debit amount will be subject to annual (or other acceptable time period) review and adjustment based on the comparison of the amounts expected at the beginning of the period versus the amounts later actually realized. Any difference (plus or minus) will be reflected in the commodity adjustment for the next time period.

A simple example, using Sanitary's existing rates and illustrative statistics of their curbside recycle program, explains the process:

Existing Curbside Recycle Rate:  
(effective 6/1/95)

Gross Recycle Rate	\$2.16
less: Assumed Recycle Value (Cr/(Dr))	<u>.26</u> (\$42,300 / 12 mo. / 13,558 customers)
Net Amount Currently Billed Customers	<u>\$1.90</u>

Actual Recycle Value (12 mo. ended 10/31/96)	<u>\$24,000</u>
Deferred (Shortfall) / Excess to Company	<u>(.11) ((\$18,300) / 12 mo. / 13,558 customers)</u>
New Year (1/1-12/31/97) Anticipated Recycle Value* (Cr/(Dr))	<u>.31 (\$50,400 / 12 mo. / 13,558 customers)</u>
1997 Credit/(Charge) (Current + Deferral)	<u>.20 (\$32,100 / 12 mo. / 13,558 customers)</u>

Future Curbside Recycle Rate:  
(effective 1/1/97)

Gross Recycle Charge	\$2.16
less: Total 1997 Credit	<u>.20</u>
New Amount to be Billed Customers	<u>\$1.96</u>

\* Most recent 3 month average or other period found acceptable by staff.

Similar procedures would be used to set multi-family recycle rates.

Pursuant to a review of the petition and staff recommendations at the Open Meeting of March 27, 1996, the Commission finds that implementation of the proposed deferred accounting mechanism is a fair, just, and reasonable approach of setting rates that equitably balances the interests of solid waste providers and their customers against the risks of changing commodity values. The Commission hereby approves Sanitary's proposal to initiate a deferred accounting methodology to update the commodity credit portion of its overall residential and multi-family recycling rate on a recurring basis.

ORDER

IT IS ORDERED THAT:

1. Sanitary Service Company, Inc. refile its existing tariff as soon as possible, splitting out the gross service and commodity value components of its residential and multi-family solid waste and recycle services. This new tariff format must not result in any changes in amounts currently charged customers for service. This new tariff must bear an expiration date of December 31, 1996.

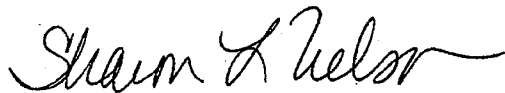


2. As soon as possible residential and multi-family bills will (at a minimum) break down total charges between the solid waste portion, the gross recycling charge, and the net commodity credit.

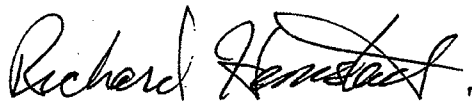
3. As soon as possible in coordination with the Commission Public Affairs Office, a notice will be prepared and mailed to customers which explains this new tariff and billing format change and the deferred commodity adjustment concept.

DATED and signed at Olympia, Washington this 1st day of April, 1996.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD HEMSTAD, Commissioner



WILLIAM R GILLIS, Commissioner

<http://www.latimes.com/business/la-fi-noexports9-2008dec09%2C0%2C4545014.story>  
*From the Los Angeles Times*

## TRADE

### Wastepaper market in the dumps

With Chinese demand -- and prices -- plunging, reclaimed cardboard that is normally exported by the ton stacks up in Southland warehouses.

By David Pierson

December 9, 2008

Bales of shredded cardboard, paper and packaging are arranged into towers several stories high inside Steve Young's 130,000-square-foot warehouse in Commerce.

Trucks have been unloading 600 tons of the wastepaper each day for more than a week, leaving the cavernous building filled nearly to capacity.

Ordinarily, much of the scrap would have been shipped to China, where it would be mashed into pulp and recycled into new cardboard boxes to package many of the goods destined for American store shelves.

But American consumers aren't buying so many nicely packaged televisions, computers and toys these days. And China's economy is slowing too.

So the stacks of paper in Young's warehouse are going nowhere. Prices for the material have plunged as much as 75% in the last six weeks and will probably struggle to rebound as demand continues to melt away.

But this is more than a story about unwanted paper. These piles of American trash are a window on the troubled worldwide economy, in which consumers aren't buying and the Chinese manufacturers who normally serve them are seeing a slowdown in their own breakneck growth.

"Growth in China is so tied to what's going on in the U.S.," said Peter Wang, chief executive of America Chung Nam Inc. of the city of Industry, the largest wastepaper supplier in the United States. "It's a domino effect."

Chinese manufacturers' dependence on scrap paper from the U.S. grew enormously over the last several years as environmental degradation and logging restrictions limited their ability to find raw material to make new paper. Companies increasingly coveted recycled American paper, which was considered to be the world's finest for its strong fibers.

Last year, 11 million tons of scrap paper worth \$1.5 billion was exported to China. By contrast, only 1.1 million tons, worth \$57 million, was exported to China in 1998, according to the U.S. International Trade Commission.

Last year, about a fifth of U.S. scrap paper was sent to China.

Until the bottom fell out last month, this year was on track to equal 2007, industry experts said.

The drop in demand for wastepaper is mirrored in diminished markets for other commodities previously devoured by the booming Chinese economy, including raw materials for construction and factory production.

"The developed market's weakness is hurting China and all the other emerging markets," said Donald Straszheim, a China expert at Roth Capital Partners in Newport Beach. "China has been an enormous demander of paper, copper and all iron and steel, and now that demand is way down."

The World Bank said last month that China's annual economic growth rate -- 9.4% so far this year - - may slow to 7.5% in 2009, which would be the lowest rate in 19 years. And Chinese President Hu Jintao hinted at the depth of China's concern by warning a meeting of Communist Party leaders recently that the country risked losing its competitive edge as international demand for exports tapered, the party's official People's Daily newspaper said.

China's slower growth combined with continued sluggish consumption in the U.S. has meant a reversal of fortune for suppliers who had flourished along with China's boom.

Wang's company, America Chung Nam, led the nation last year in shipping-container exports and was one of nine wastepaper companies among the 20 largest U.S. exporters, according to the Journal of Commerce.

Now the company is facing 30% declines in sales compared with the summer, Wang said.

Almost all of the wastepaper Wang's company sells goes to China, and half of that goes to its sister company there, Nine Dragons Paper, which operates its own mill.

Both companies are owned by Zhang Yin, the 15th-richest person in China, according to the Shanghai-based Hurun Report, which tracks China's business elite.

Last year, Zhang was ranked No. 2. But Nine Dragons' shares have lost about 80% of their value on the Hong Kong Stock Exchange since the beginning of the year after reports of slower earnings.

The decline of paper values has occurred too recently to be reflected in industrywide statistics, most of which go as far as September. But industry leaders say the drop-off has been painful and unprecedented.

"Prices have dropped so much that we don't know where they should be," said Jim Yang, president of Newport CH International in Brea. "A lot of material is going to the landfill and a lot is stacking up in warehouses in case prices go up again. It's just so volatile."

For Yang, rates for corrugated cardboard went from \$250 a ton in August to \$75 in October to \$100 today.

Yang and many other suppliers say the swings have prompted Chinese buyers to engage in brinkmanship by demanding cheaper rates after the wastepaper has already left the U.S., and in some cases, after it has arrived in Chinese ports. Some buyers are requesting up to 70% reductions in prices.

"It's obviously not ethical to break a contract or renegotiate while the boat is out on the water, but

what are you going to do?" Yang said. "It's not worth fighting. You're just kind of stuck."

The California Integrated Waste Management Board is so concerned about the crisis that it has called a special meeting for Dec. 10 with officials and suppliers to discuss ways of easing the hardship and preventing businesses from closing.

One of the options being considered is waiving restrictions on how long suppliers can store waste material, so they can wait for competitive prices to return.

"A lot of our stakeholders are affected by this dramatic price drop-off," said Jon Myers, director of communications for the board. "It just happened so fast. Recycling has always been an up-and-down kind of market. We saw some big price increases the last couple of years, but we've never seen a big drop like this."

Young, the supplier whose scrap is piling up in warehouses, said his rates for used corrugated cardboard fell in mid-October to \$40 a ton from \$170 a ton -- not good when you consider \$90 a ton is about where he breaks even.

"It was like D-Day for us," said Young, who founded Allan Co. in Baldwin Park in 1963 and has similar-sized foreign and domestic customer bases.

Rather than sell his material at a loss, Young has chosen to increase his warehouse space by 400,000 feet and hold on to the scrap until prices bounce back.

Hoping to allay the fears of his employees, Young recently fired off a companywide memo that began "The prices of our recovered materials have fallen off a cliff. . . . Our buying customers act as if they just went through an 8.0 earthquake."

He continued, "We have gone through the recessions of 2001, 1996, 1990, 1985, 1980 and 1975. We survived each and actually made a small profit."

Pierson is a Times staff writer.

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December 8, 2008

## Back at Junk Value, Recyclables Are Piling Up

By MATT RICHTEL and KATE GALBRAITH

Trash has crashed.

The economic downturn has decimated the market for recycled materials like cardboard, plastic, newspaper and metals. Across the country, this junk is accumulating by the ton in the yards and warehouses of recycling contractors, which are unable to find buyers or are unwilling to sell at rock-bottom prices.

Ordinarily the material would be turned into products like car parts, book covers and boxes for electronics. But with the slump in the scrap market, a trickle is starting to head for landfills instead of a second life.

"It's awful," said Briana Sternberg, education and outreach coordinator for Sedona Recycles, a nonprofit group in Arizona that recently stopped taking certain types of cardboard, like old cereal, rice and pasta boxes. There is no market for these, and the organization's quarter-acre yard is already packed fence to fence.

"Either it goes to landfill or it begins to cost us money," Ms. Sternberg said.

In West Virginia, an official of Kanawha County, which includes Charleston, the state capital, has called on residents to stockpile their own plastic and metals, which the county mostly stopped taking on Friday. In eastern Pennsylvania, the small town of Frackville recently suspended its recycling program when it became cheaper to dump than to recycle. In Montana, a recycler near Yellowstone National Park no longer takes anything but cardboard.

There are no signs yet of a nationwide abandonment of recycling programs. But industry executives say that after years of growth, the whole system is facing an abrupt slowdown.

Many large recyclers now say they are accumulating tons of material, either because they have contracts with big cities to continue to take the scrap or because they are banking on a price rebound in the next six months to a year.

"We're warehousing it and warehousing it and warehousing it," said Johnny Gold, senior vice president at the Newark Group, a company that has 13 recycling plants across the country. Mr. Gold said the industry had seen downturns before but not like this. "We never saw this coming."

The precipitous drop in prices for recyclables makes the stock market's performance seem almost enviable.

On the West Coast, for example, mixed paper is selling for \$20 to \$25 a ton, down from \$105 in October, according to Official Board Markets, a newsletter that tracks paper prices. And recyclers say tin is worth about \$5 a ton, down from \$327 earlier this year. There is greater domestic demand for glass, so its price has

not fallen as much.

This is a cyclical industry that has seen price swings before. The scrap market in general is closely tied to economic conditions because demand for some recyclables tracks closely with markets for new products. Cardboard, for instance, turns into the boxes that package electronics, rubber goes to shoe soles, and metal is made into auto parts.

One reason prices slid so rapidly this time is that demand from China, the biggest export market for recyclables from the United States, quickly dried up as the global economy slowed. China's influence is so great that in recent years recyclables have been worth much less in areas of the United States that lack easy access to ports that can ship there.

The downturn offers some insight into the forces behind the recycling boom of recent years. Environmentally conscious consumers have been able to pat themselves on the back and feel good about sorting their recycling and putting it on the curb. But most recycling programs have been driven as much by raw economics as by activism.

Cities and their contractors made recycling easy in part because there was money to be made. Businesses, too — like grocery chains and other retailers — have profited by recycling thousands of tons of materials like cardboard each month.

But the drop in prices has made the profits shrink, or even disappear, undermining one rationale for recycling programs and their costly infrastructure.

“Before, you could be green by being greedy,” said Jim Wilcox, a professor at the Haas School of Business at the University of California, Berkeley. “Now you’ve really got to rely more on your notions of civic participation.”

The impact of the downturn on individual recycling efforts varies. Most cities are keeping their recycling programs, in some cases because they are required by law, but also because the economics, while they have soured, still favor recycling over landfills.

In New York City, for instance, the city is getting paid \$10 for a ton of paper, down from \$50 or more before October, but it has no plans to cease recycling, said Robert Lange, the city's recycling director. In Boston, one of the hardest-hit markets, prices are down to \$5 a ton, and the city expects it will soon have to pay to unload its paper. But city officials said that would still be better than paying \$80 a ton to put it in a landfill.

Some small towns are refusing to recycle some material, particularly the less lucrative plastics and metals, and experts say more are likely to do so if the price slump persists.

Businesses and institutions face their own challenges and decisions. Harvard, for instance, sends mixed recyclables — including soda bottles and student newspapers — to a nearby recycling center that used to pay \$10 a ton. In November, Harvard received two letters from the recycler, the first saying it would begin charging \$10 a ton and the second saying the price had risen to \$20.

“I haven’t checked my mail today, but I hope there isn’t another one in there,” said Rob Gogan, the recycling and waste manager for the university’s facilities division. He said he did not mind paying as long as the price was less than \$87 a ton, the cost for trash disposal.

The collapse of the market is slowing the momentum of recycling overall, said Mark Arzoumanian, editor in chief of Official Board Markets. He said the problem would hurt individual recycling businesses, but also major retailers, like Wal-Mart Stores, that profit by selling refuse.

Mr. Arzoumanian said paper mills in China and the United States that had signed contracts requiring them to buy recycled paper were seeking wiggle room, invoking clauses that cover extraordinary circumstances. “They are declaring ‘force majeure,’ which is a phrase I’d never thought I’d hear in paper recycling,” he said.

Mr. Arzoumanian and others said mills were also starting to become pickier about what they take in, rejecting cardboard and other products that they say are “contaminated” by plastic ties or other material.

The situation has also been rough on junk poachers — people who made a profitable trade of picking off cardboard and other refuse from bins before the recycling trucks could get to it. Those poachers have shut their operations, said Michael Sangiacomo, chief executive of Norcal Waste Systems, a recycling and garbage company that serves Northern California.

“I knew it was really bad a few weeks ago when our guys showed up and the corrugated cardboard was still there,” he said. “People started calling, saying ‘You didn’t pick up our cardboard,’ and I said, ‘We haven’t picked up your cardboard for years.’”

The recycling slump has even provoked a protest of sorts. At Ruthlawn Elementary School in South Charleston, W.V., second-graders who began recycling at the school in September were told that the program might be discontinued. They chose to forgo recess and instead use the time to write letters to the governor and mayor, imploring them to keep recycling, Rachel Fisk, their teacher, said.

The students’ pleas seem to have been heard; the city plans to start trucking the recyclables to Kentucky.

“They were telling them, ‘We really don’t care what you say about the economy. If you don’t recycle, our planet will be dirty,’” Ms. Fisk said.

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Published December 10, 2008

## **Incentives for recycling programs lose their steam**

John Dodge

South Sound recycling programs remain on solid footing, despite a precipitous drop in the market value of recycled materials such as cardboard, plastic, aluminum and newspaper.

Like the U.S. and global economy, the recycling commodities markets have crashed in recent months, recycling and solid waste officials say.

"It's been very difficult, especially the speed of the decline in prices," said Jeffrey Harwood, district manager of LeMay Inc., whose subsidiary companies pick up and process much of the recycled materials in Thurston County.

For instance, he said, recycled cardboard is worth about \$35 a ton, compared with about \$150 a ton six months ago. High-grade office paper has dropped to \$75 a ton from a recent high of \$240 a ton, he said.

"But there's no plans to scale back recycling programs," Harwood said. "We know the markets will come back. It's an essential part of our business and it's the right thing to do."

### **End of high-volume discount**

The drop in prices prompted LeMay on Dec. 1 to stop offering its high-volume commercial customers credits on their monthly recycling bill for such items as cans, plastics and cardboard. The credit is tied to the resale value of the recycled materials.

"This past year, we have seen our cost for hauling and processing rise, while the marketable value of the recycled material has collapsed," LeMay said in a letter to some of its commercial customers.

LeMay recycling coordinator Emmett A. Brown said none of the company's commercial customers has scrapped recycling programs in response to the higher monthly bills.

If the prices continue to be flat, thousands of residential curbside recycling customers could see a loss of the credit they receive on their monthly bills, which ranges from \$1.30 for multifamily customers to \$2.09 per month for residential customers in urban areas.

The net effect of the credits is to cut by roughly one-third a residential recycling customer's monthly bill.

For a regulated utility such as LeMay, elimination of the credit would require approval by the state Utilities and Transportation Commission.

No recycling companies have filed requests yet to remove the credits granted customers, UTC spokesman Marilyn Meehan said.

The city of Olympia runs its own residential curbside recycling program, but it sends the material it collects to LeMay for processing.

"When the market falls out, it just means we receive less credit on our bill from LeMay," said city Public Works Director Michael Mucha. "But it will have no effect on the curbside program customers."

In some regions of the country, recyclers are stockpiling materials or, worse, sending reusable materials to local landfills.

Statewide, there's some stockpiling under way but little incentive to send recyclables to the landfill because of the costs of garbage disposal, said Preston Horne-Brine, owner of Fluxion Enterprises, a Seattle-based recycling business consultant.

"This is a tough time, with a major crash in prices," he said. "But the recycling industry in the Pacific Northwest is robust and resilient enough to withstand shocks."

He said the market for recycled materials has been at historic highs for five years as manufacturers have grown to rely on these materials for feedstock.

"It's remarkable how long those good markets have lasted," Horne-Brine said.

Statewide, nearly 7.7 million tons of material was recycled or diverted from the garbage in 2006, according to the state Department of Ecology. That compares with 2.5 million tons in 1996.

At the same time, the amount of solid waste generated per capita each year rose from 1.73 tons in 1996 to 2.73 tons in 2006. This includes garbage and recycled materials.

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## Recycling fees may rise as demand, prices drop

By Warren Cornwall  
Seattle Times environment reporter

Who knew the paper, pop bottles and cans tossed into your curbside recycling bin were caught up in the global economic crisis?

The drop in consumer demand is reverberating from American shopping malls to Chinese factories that turn recyclables into new products, and back again to Seattle-area recyclers.

Those local companies, and their competitors around the country, face a dizzying drop in the price for everything from paper to scrap metal to plastic bottles.

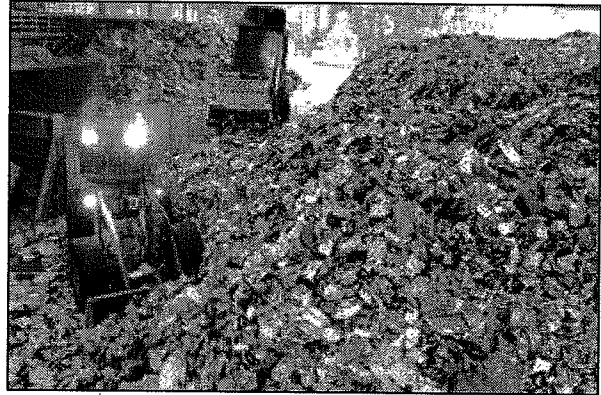
In some cases, prices are less than half of what they were a month ago.

"We've been through ups and downs before. We've never seen anything like this," said Bruce Glant, president and part owner of the Pacific Iron and Metal Company, a 101-year-old metal scrap recycler in South Seattle.

The collapse could mean higher fees for recycling pickup in much of the state, as recyclers struggle to close the gap between the cost to collect the material and what it now sells for.

Local companies are stockpiling some material in hopes they can sell it later. They also are selling at discount prices, just trying to move the huge volumes of recyclable products that people dump in their bins each week.

Waste Management's factory in a massive Woodinville warehouse sorts through mounds of magazines, plastic bottles and aluminum cans collected from more than 250,000 Puget Sound-area homes. After it's sorted and squashed into bales, much of it is loaded into containers



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Recycle comes in here before being sorted at Waste Management's Cascade Recycling Center. Prices for recycled products have dropped across the spectrum.



KEN LAMBERT / THE SEATTLE TIMES

An employee separates plastic at Waste Management's Cascade Recycling Center in Woodinville. Workers at the factory sort through mounds of magazines, plastic bottles and aluminum cans collected from more than 250,000 Puget Sound-area homes.



KEN LAMBERT / THE SEATTLE TIMES

bound for Asia.

Bails of recycled aluminum, plastic, tin and fiber are ready to ship at Waste Management's Cascade Recycling Center.

Wastepaper gets turned into cardboard boxes used to ship computers, running shoes and other consumer products back to the United States. Plastic bottles become synthetic carpets, and the filling for winter coats and sleeping bags. Metal scrap is melted down for steel, copper wiring and aluminum cans.

Now, with the economy worsening, manufacturers don't need as much of those raw materials.

"It's all connected," said Ed Skernolis, acting executive director of the National Recycling Coalition. "It all ripples down through the system."

The price for recycled newspaper in the Northwest fell from \$120 a ton to \$50 a ton in the last month, the price for cardboard dropped by half, and the price for plastic pop bottles dived from more than 15 cents per pound to 6 cents per pound, said Jerry Powell, editor of the Portland-based recycling industry journal, Resource Recycling.

With prices so low, when people recycle more it actually hurts the company's bottom line, said Susan Robinson, who oversees Waste Management's municipal contracts in the Northwest.

Eventually, area residents and companies may end up paying higher recycling bills to cover the lost revenue.

Under recycling fees set by the state, residents of unincorporated parts of counties get a monthly credit on their waste-hauling bills when recycling companies get extra revenue from high prices for recycled materials. But when the prices fall below a set threshold, that can turn into an extra cost tacked onto fees, said Gene Eckhardt, of the state Utilities and Transportation Commission, which sets the rates.

People in recent years have gotten credits. In parts of King County, that has meant anywhere from \$2.64 to \$2.87 off their monthly bills. Any higher costs could take a year or more to find their way onto people's garbage bills, because of how it's calculated.

Commission staff is now considering whether fees could be set differently to dampen the impact, Eckhardt said.

The city of Seattle, meanwhile, faces the prospect of a multimillion-dollar revenue source becoming a multimillion-dollar expense. Under its recycling contracts, the city collects the excess revenues when prices for recycled materials rise above a predetermined benchmark. But when prices fall below that level, the city must pay the difference to companies with the recycling contracts.

This year, the city should still get \$1 million or \$2 million from the arrangement, because of high prices earlier in the year, said George Sidles, Seattle's recycling manager with Seattle Public Utilities.

But next year could be a different picture. Still, Sidles said even if the city loses \$2 million or \$4 million, it's such a small part of the budget that "it's not a big impact to our ratepayers."

If there's a silver lining to all this, the drop in metal prices appears to have put a dent in the rash of metal thefts plaguing the region. Until recently, people — often characterized as drug addicts looking for cash — were stealing everything from football goalposts to copper wire at construction sites, to sell to scrap dealers.

No more, said Powell, of the Portland trade magazine.

"It's gone away. It's absolutely gone away. Meth heads are also businessmen."

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