

**EXHIBIT 2
REFUSE RATE INDEX**

The "Refuse Rate Index" adjustment for the Mixed Material and Organics Collection Contract shall be calculated in the following manner:

1. The expenses of the Collection and Processing services for the designated fiscal period shall be prepared in the format set forth in the Operating Cost Statement - Description on the following page.
2. The expenses of the disposal services shall be broken down into the following seven (7) cost categories: Labor, Diesel Fuel, CNG Fuel, Vehicle Replacement, Vehicle Maintenance, Disposal, and All Other. Each cost category is assigned a weighted percentage factor on that cost category's proportionate share of the total of the costs shown for all cost categories.
3. The following indices published by the United States Department of Labor, Bureau of Labor Statistics (BLS), are used to calculate the adjustment for each cost category except, CNG Fuel, and Disposal. The change in each index is calculated in accordance with the terms of the Contract. In the event any index is discontinued, a successor index shall be selected by mutual agreement of the parties. Successor indices shall be those indices that are most closely equivalent to the discontinued indices as recommended by the BLS.

Cost Category	<u>Index</u>
Labor	Series ID: ceu6056210008 Service Producing Industries
Diesel Fuel	Series ID: wpu057303 #2 Diesel Fuel
CNG Fuel	Schedule G-NGV-1, compiled and published by the Pacific Gas and Electric Co. Analysis and Rate Department and reported monthly in the "Gas Rate Finder" publication (http://www.pge.com/tariffs) reflecting the sum of the Customer, procurement, transportation and public purpose program charges.
Vehicle Replacement	Series ID: pcu336211336211 Truck, bus, car, and other vehicle bodies, for sale separately
Vehicle Maintenance	Series ID: pcu3339243339243 Parts and attachments for industrial work trucks
Disposal	Actual tip fee change at the landfill per the Disposal Contract
All Other	Series ID: cuura422sa0 Consumer Price Index, All Urban Consumers, All Items – Bay Area

The percentage weight for each cost category is multiplied by the change in each appropriate index, or labor agreement to calculate a weighted percentage for each cost category. The weighted percentage changes for each cost category are added together to calculate the Refuse Rate Index (see Example).

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Operating Cost Statement-Description

- Labor:** List all salary accounts.
List payroll tax accounts, health and welfare, payroll insurance and pension accounts directly related to the above salary accounts.
- Diesel Fuel:** List all diesel fuel accounts.
- CNG Fuel:** List all CNG fuel accounts.
- Vehicle Replacement:** List all collection and collection related vehicle depreciation accounts.
List all vehicle lease or rental accounts related to collection or collection related vehicles.
- Vehicle Maintenance:** List all collection or collection related vehicle parts accounts.
- Disposal:** List disposal costs.
- All Other:** List all other expense accounts related to the services provided under this Contract. This category includes, insurance including general liability, fire, truck damage, and extended coverage; rent on property, truck licenses and permits; real and personal property taxes; telephone and other utilities; employee uniforms; safety equipment; general yard repairs and maintenance; non-diesel or non-CNG fuel; office supplies; postage; trade association dues and subscription; advertising; processing and transfer costs; and miscellaneous other expenses.

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RRI Example

Item #	Category	Data Source	Percentage Change	Item Weight	Weighted Percentage Change
1	Labor (Other)	Series ID: ceu6056210008 Service Producing Industries	4.19%	30.00%	1.26%
2	Diesel Fuel	Series ID: wpu057303 #2 Diesel Fuel	8.09%	1.15%	0.09%
3	CNG Fuel	PG & E Schedule G-NGV-1,	4.28%	20.00%	0.86%
4	Vehicle Replacement	Series ID: pcu336211336211 Truck, bus, car, and other vehicle bodies, for sale separately	6.79%	9.46%	0.64%
5	Vehicle Maintenance	Series ID: pcu3339243339243 Parts and attachments for industrial work trucks	1.20%	7.39%	0.09%
6	Disposal	Tip Fee change from Disposal Contract	1.25%	13.00%	0.16%
7	All Other	Series ID: cuura422sa0 Consumer Price Index, All Urban Consumers, All Items Bay Area	2.70%	19.00%	0.51%
Total				100.00%	3.61%

In this example, the Refuse Rate Index is 3.61%.