

Island Waste Management Corporation

Application for Waste Watch Rate Increases

Docket WM01302

Backgrounder

December, 2009

Island Waste Management Corporation

Introduction

IWMC states that its mandate is to balance a cost effective and environmentally responsible provincial waste management system to both residential and commercial sectors of P.E.I.

Legislation

This application was filed November 3, 2009 pursuant to Section 18.1 of the *Environmental Protection Act* which reads as follows:

- 18.1 (2) When the Corporation wishes to vary the rates for any existing services, or to establish rates for any new services, the Corporation shall submit for the review and approval of the Commission
- (a) a schedule of the proposed rates together with a description of the services to which they relate and any conditions or terms of service that are to apply in respect of those rates;
 - (b) a submission justifying or explaining the proposed rates; and
 - (c) such other information concerning the proposed rates and the financial affairs of the Corporation as the Commission may require.
- (3) On receipt of a submission by the Corporation made in accordance with subsection (2), the Commission
- (a) shall cause notice of the submission to be published that invites written submissions from the public; and
 - (b) after allowing such time as the Commission considers appropriate for public submissions to be made, shall review the submission of the Corporation and any written submissions of the public that the Commission has received.
- (4) After reviewing the submissions referred to in subsection (3), the Commission may, subject to subsection (9),
- (a) approve the rates proposed by the Corporation;
 - (b) determine and fix new rates; or
 - (c) refuse the rates proposed and confirm the existing rates.
- (5) The Commission shall make a decision under subsection (5) not later than 60 days from the date of the submission by the Corporation under subsection (2).
- (6) Subject to subsection (7), the rates that are approved, determined and fixed or confirmed by the Commissioner under this section are the lawful rates of the Corporation until altered or modified under this section.
- (7) The current rates of the Corporation are the lawful rates of the Corporation until altered under this section.
- (8) The Corporation shall not charge, and shall not be entitled to collect with respect to the provision of a service, any rate other than one that is a lawful rate as determined by or under this section.
- (9) When making a decision in respect of a submission by the Corporation, the Commission shall allow the Corporation to earn, annually or within such other period as the Commission considers appropriate, such return from its rates for each type of service the Corporation provides as the Commission considers is just and reasonable to recover the costs incurred by the Corporation to provide that type of service.
- (10) The Commission may allow the Corporation to earn, in addition to the return required by subsection (8), such amount as the Commission considers appropriate in respect of the operation of the Corporation.

Based on the application filing date and the requirement of subsection(5), the Commission will require a decision on January 2, 2010 (60days). As described in subsection(4), the Commission has discretion to approve the proposed rates, determine new rates or refuse proposed rates and confirm existing rates.

In subsection (9) above, the legislation suggests the Commission may allow IWMC rates which *earn such return as the Commission considers is just and reasonable to recover costs*, and subsection (10) suggests the Commission *may allow IWMC to earn additional return from operations*.

The present application by IWMC is requesting rate increases to allow IWMC to recover anticipated costs of operations in 2010. Further rate increases may be necessary depending upon the price of fuel and effects of inflation on operating costs beyond 2010. No request has been made by IWMC for earnings beyond break even cost of operations.

Application

The application states that Island Waste Management Corporation (IWMC) requires an additional \$569,155 in revenues to fulfill the Corporation's mandate. IWMC states that they continue to explore cost reduction initiatives to keep operational costs at a minimum. However, IWMC states that operational cost increases have led to this rate increase request. IWMC has experienced inflationary cost for such items as fuel on collection contracts, salary increases, and general operating and administrative costs.

IWMC is seeking fee increases as follows:

Fee Category	Proposed Fee Increase	Projected Revenue Increase
Household User Fee	\$4.85 per Unit	\$286,000
Cottage User Fee	\$4.85 per Unit	\$40,000
Cottage Extended	\$4.85 per Unit	\$2,000
Commercial Tip Rate	\$1.00 per tonne	\$30,000
Waste Watch Drop-off Centre (WWDC)	No Change	Nil
Material Type Rate Charges	See Below	\$212,000
Total		\$570,000

Material rate changes are summarized as follows:

Material Type	Current Rate	Proposed Rate
Asphalt Shingles	\$30 per tonne	\$40 per tonne
Contaminated Soil Residential	\$20 per tonne	\$35 per tonne
Confidential Material	\$110 per tonne	\$125 per tonne
Contaminated Material	\$140 per tonne	\$155 per tonne
Oil Saturated Waste	\$150 per tonne	\$165 per tonne
Mixed Waste	\$215 per tonne	\$230 per tonne
Asbestos	\$145 per tonne	\$160 per tonne
*Landlord Material	Nil	Min \$5 to Max \$20 per load
Residential Material	Min \$5 to Max \$15 per load	Min \$5 to Max \$20 per load
**OOP Contaminated Material	New Category	\$230 per tonne
**OOP Confidential Material	New Category	\$200 per tonne
**OOP Oil-Saturated Material	New Category	\$240 per tonne

The requested fee increases will result in the following increased revenue:

Fee Category	Proposed Fee Increase	Projected Revenue Increase
Household User Fee	\$4.85/unit	\$286,000
Cottage User Fee	\$4.85/unit	\$40,000
Cottage Extended	\$4.85/unit	\$2,000
Commercial Tip Rate	\$1.00 per tonne	\$30,000
Waste Watch Drop Off Centre (WWDC)	No Change	Nil
Material Type Rate Charges	See detail below	\$212,000
Total		\$570,000

Public Notice

The application was received on November 3, 2009 and the notice of application was published in local newspapers the following week. Three comments were received from the general public subsequent to the notice of application. Two comments received related to the implications of waste watch fees on landlord of rental properties. The other comment received remarked about affordability and, although the fee requested was not large, the Commission must review the application to ensure costs are minimized and rates kept to the lowest level possible.

IWMC Financial History

- IWMC has shown the following financial results:

	March 31 2005	March 31 2006	March 31 2007	March 31 2008	March 31 2009
	\$	\$	\$	\$	\$
Revenue	15,831,034	18,797,169	20,314,517	21,174,431	22,322,295
Expenditures	14,632,667	20,149,354	20,185,014	21,020,232	22,216,765
Net Earnings (Deficit)	(3,037,479)	(1,352,185)	129,503	154,199	105,530
Government Assistance - Deficit Relief				1,256,285	
Accumulated Earnings (Deficit), Beginning of Year	(3,037,479)	(33,603)	(1,385,788)	(1,256,285)	154,199
Accumulated Earnings (Deficit), End of Year	(6,582,613)*	(1,385,788)	(1,256,285)	154,199	259,729

*Pursuant to Executive Council Order #2005-537, the Province of PEI provided deficit funding of \$6,582,600 to cover the accumulated deficit of the Corporation. IWMC is now restarting with no operational debt to be recovered from future operations.

- The IWMC history of rates started with household user fees of \$155 per household, \$60 per cottage unit and \$80 per tonne for general commercial tippage. In December, 2004 Executive Council approved a rate increase for 2005 to \$175 per household, \$75 per cottage unit and \$95 per tonne for general commercial tippage. Effective January 1, 2006 the Commission approved a rate increase of \$20/household unit, \$10/cottage unit, \$10/cottage extended and \$4 per tonne commercial tippage rate. This resulted in rates of \$195/household, \$85/cottage, \$85/cottage extended and \$99 tonne commercial tip rate along. These rates are in effect currently.

Specific Issues

1. Current financial situation

The application provides a forecast operating financial projection for the next five years with no change in rates as follows:

	March 31 2009 (Audited)	March 31 2010 Forecast	March 31 2011 Forecast	March 31 2012 Forecast	March 31 2013 Forecast	March 31 2014 Forecast
	\$	\$	\$	\$	\$	\$
Revenue	21,822,650	21,205,000	21,122,400	21,406,200	21,694,400	21,987,200
Expenditures	17,840,278	17,360,000	17,371,600	17,750,000	18,152,800	18,567,000
Interest on It Debt	1,697,210	1,681,300	1,720,300	1,657,900	1,591,600	1,521,000
Depreciation	2,179,633	2,267,200	2,450,000	2,650,000	2,650,000	2,600,000
Net Earnings (Deficit)	105,530	(103,500)	(419,500)	(651,700)	(700,000)	(700,800)
Accumulated Earnings (Deficit), Beginning of Year	154,199	259,729	156,229	(263,271)	(914,971)	(1,614,971)
Accumulated Earnings (Deficit), End of Year	259,729	156,229	(263,271)	(914,971)	(1,614,971)	(2,315,771)

2. Proposed Fee Increases

The requested fee increases are projected to having the following impact on the financial results:

	<i>March 31 2009 (Audited)</i>	March 31 2010 Forecast	March 31 2011 Forecast	March 31 2012 Forecast	March 31 2013 Forecast	March 31 2014 Forecast
		\$	\$	\$	\$	\$
Revenue	<i>21,822,650</i>	21,355,700	21,694,100	21,986,100	22,282,600	22,583,700
Expenditures	<i>17,840,278</i>	17,360,000	17,371,600	17,750,000	18,152,800	18,567,000
Interest on It Debt	<i>1,697,210</i>	1,681,300	1,720,300	1,657,900	1,591,600	1,521,000
Depreciation	<i>2,179,633</i>	2,267,200	2,450,000	2,650,000	2,650,000	2,600,000
Net Earnings (Deficit)	<i>105,530</i>	47,200	152,200	(71,800)	(111,800)	(104,300)
Accumulated Earnings (Deficit), Beginning of Year	<i>154,199</i>	259,729	306,929	459,129	387,329	275,529
Accumulated Earnings (Deficit), End of Year	<i>259,729</i>	306,929	459,129	387,329	275,529	171,229

3. Revenue Analysis

a) Household, Cottage Units

IWMC actual residential unit numbers for 2009 shows there were 59,027 household units, 8,152 cottage units and 316 extended cottage units. The financial projections incorporate a 1% increase in units based on information IWMC has received from Provincial Treasury property tax statistics.

b) Landlord drop - off fee

This application calls for the removal of the Landlord Permit. Subsequent to the implementation of waste watch, landlords have many challenges associated with the program. Essentially, landlords have assumed the responsibility for tenant compliance with the program

and must accept the financial consequences when tenant waste is unsorted. In response to landlord concerns, IWMC established a Landlord Permit which allowed landlords to dispose of waste left behind after tenant vacancies, free of charge.

IWMC states that upon review of this program there appears to be an increase in the amount of unsorted waste being received at IWMC drop off locations. IWMC feels that more than unsorted waste from tenant vacancies is being received at drop off locations. IWMC believes that this program should not be used for tenants who are simply unwilling to participate in waste watch. Essentially, the principles of the waste watch program must be upheld in which source separation and maximum diversion of organic waste and recyclables is achieved.

IWMC states that approximately \$13,785 per year will be raised in additional revenue by applying the household drop off fee (\$5-\$20 per drop-off) to landlords. Again, IWMC states that it is their feeling that landlords use the free drop off as a means to avoid situations when tenants do not sort waste material and continuation of the exemption permit results in the annual household fee subsidizing the landlord - tenant unsorted waste.

On the other hand, IWMC has not provided any information on consultations and/or discussions it has conducted with the residential rental community concerning the application of landlord drop off fees.

4. Expenditure Analysis

Contracts - IWMC

IWMC conducts a significant portion of its business through the use of outside contractors. The CEO of IWMC has indicated that the decision to perform services via outside contractors is made after a cost benefits analysis to determine the appropriate business arrangement for services.

Central Compost Facility (CCF)

IWMC's previous contract with ADI International (ADI) for the operation of the CCF expired in 2007. IWMC issued a Request For Proposals (RFP) seeking operators for this facility for a further three year period. As a result of the lowest bid, the previous operator, ADI, were selected to operate the facility for a further three year period ending March, 2011 with a three year extension subject to agreeable terms between the parties. The new contract resulted in 2009 cost savings of \$33,800 over 2008 rates. Both the old contract and the new contract contained provisions for additional fees to be charged by ADI to IWMC for volumes over contract set levels.

Energy from Waste

PEI Energy Systems owns and operates the incinerator on Riverside Dr. in Charlottetown. IWMC is required to dispose of 30,617 tonnes annually to this facility at a rate established in 1995 adjusted by CPI quarterly index. The 2009/2010 forecasted contract costs for this waste diversion is \$1,898,300 or approximately \$62/tonne. The contract price escalates annually by CPI.

All incinerator fly ash from the PEI Energy Systems plant is the responsibility of IWMC and its disposal is contracted to Newalta Corporation for disposal off island. This 5 year contract expires in May, 2014. The contract calls for annual escalating per tonne disposal prices plus fuel adjustment clauses for transportation. The 2009/2010 projected contract cost is \$275,000.

IWMC indicate that the maximum volume of waste material is being sent to the facility but this does not meet the total weight required of the contract and thus a top up payment still occurs. The reason why the total weight is not being delivered lies in the fact that waste material is now characterized by higher volume but lighter material due to the removal of organic material. PEIES system is processing the maximum volume of material it can handle but it does reach the limits on the contract volumes.

Collection Contracts

IWMC has entered into collection contracts for the collection of waste, compost and recyclables for approximately 68,000 homes in PEI. There are 71 scheduled collections per household per year. Superior Sanitation holds 5 of the 6 waste and compost collection contracts with Myers Industries holding the Eastern Kings locations. Superior Sanitation holds all recycling collection contracts. All contracts are based initially on estimated household numbers with an annual adjustment to actual household numbers as well as a fuel price adjustment. The forecast financial results incorporate a diesel fuel average price of \$1 per litre in 2010 with an increase of 5% each year thereafter.

IWMC has renewed all collection contracts which expired in 2007 at the same base unit price as the 2007 rate. The contracts contain the same adjustments for household numbers and fuel price changes.

In response to Commission staff interrogatories, IWMC states that due to lack of potential suppliers of this service and the fact that contractors were willing to extend a new contract at the same price as the final year of the old contract, a competitive bidding process for collection contracts would not have yielded further costs savings.

Other Contracts

Annually, IWMC accepts proposal for the processing of white goods and scrap metals. Currently, the contract is held by A&S Scrap Metal who pay IWMC \$100 per tonne for goods received at the IWMC drop off locations. In the past, market conditions for these goods have required IWMC to pay contractors to accept white goods and scrap metals.

IWMC has a contract for the collection and disposal of used tires at a rate of \$100 per tonne or approximately \$1 per tire. This contract requires the contractor to collect and deliver used tire to EPWMF. Tires are collected at EPWMF and recycled by DTR Environmental Services.

IWMC invoices PEI Dept of Transportation and Public Works for the full cost of tire collection and disposal on a per tire basis.

Expenditure Control

IWMC states that it continually looks at opportunities to reduce costs. This rate increase request is the first since 2006. IWMC operates with approximately 80% of expenditures under contract with outside agencies. Negotiated contract prices and contract adjustment clauses have a significant impact on expenditures and to a large extent are beyond the control of IWMC.

Since 2004, IWMC has reduced administrative expenses by \$500,000 mainly through reduced staffing made possible in part by cross training of employees. Salaries and benefit expense in fiscal year 2008/2009 totaled \$2,169,494 and is projected to cost \$2,210,700 for an increase of \$41,206 or 1.9%. Included in the 2009/2010 salaries, wages and benefits cost is a 3% wage increase as part of the collective agreement with employees, additional pension costs associated with transfer of employees to provincial CSSF as opposed to self-directed RRSP program and a reduction of one administrative staff member made possible by the cross training of employees.

5. Automatic Increase for CPI

IWMC has requested Commission approval to increase rates by an amount less than or equal to the accumulated increase in the annual CPI. IWMC states this process will allow IWMC to transfer the cost of living increases to customers on an annual basis, if required.

A review of the legislation applicable to IWMC and their rates does not support this request. Specifically, section 18.1 of the *Environmental Protection Act* requires IWMC to seek Commission approval to vary previously established rates or establish rates for any new service.

Summary

Following a review of the application, as well as an analysis of the IWMC's revenues and expenditures, the Commission has determined that increased rates are warranted at this time. Rising fuel prices on collection contracts and general operating increases require additional revenues. The Commission would like IWMC to consult with landlords before applying the household drop off fee. The Commission directs IWMC to report within six (6) months on the consultations aimed at finding a workable solution on this issue. Finally, the Commission finds that the approval of an automatic adjustment mechanism for CPI increases does not comply with the legislative requirements of the *Environmental Protection Act* and therefore denies this request. Commission Order WM09-01 and attached tariff schedule are approved effective January 1, 2010.