

IWMC's Responses to Third-Party Calculations Request for Rate Increase in Collection Fees

Thank you for the opportunity to provide comments and updates to our projections as outlined in your recent e-mail. The points below will help to explain IWMC's rationale for selecting processes to project future revenue and expenditures. We have taken the opportunity to review the points provided to us by IRAC and have made some recalculations on respective impacts. These recalculations are attached.

1. Household User Fee Revenue

IWMC's user fee revenue calculations were based on a 1% increase in housing costs across the Island as a whole. There were several reasons we opted to use 1% instead of predicting the increase on a regional basis.

- The \$205 (Household Fee) and \$95 (Cottage Fee) are constants across the Province;
- The increase housing count is an estimate based on historic increases seen by IWMC in the past. There is no live data to consider. Housing counts are adjusted annually in conjunction with the annual property tax billing. The housing count data used in our original IRAC submission was based on July 2019 counts. Increases in housing counts may be higher in some regions, lower in other regions. We used 1% as our predicted average on a provincial basis.
- When projecting revenue, historical data was used as a basis with some of those numbers adjusted slightly based on in-house observations for recent cart requests for newly built homes and multi-family dwellings. Fluctuations in housing counts has a much larger impact on expenses in some areas than others because of the contracted collection costs for that specific region. Previously submitted calculations outlines the contracted collection costs for each region.

IWMC acknowledges that we did not cost out the additional \$25 charge for extended cottages. We felt that this additional revenue was not sufficient to alter projections significantly. The cottage rate of \$95 was used in our original 'no proposed increase' calculations. Extended cottages have now been broken out and we have noted that revenue has been understated by \$15K to \$16K over the four-year period. Please see attached **Chart 1** for the updated calculation.

2. Housing Adjustment

With respect to IRAC's Table 2 (Assumptions Used to Calculate Housing Adjustments), please note that the 50% rate is only calculated on new properties (houses and cottages) added during the current year, and NOT on the subsequent year. The reason is because some new properties start receiving collection in the first part of the year, and some in the second part. We noted that in the calculations provided by IRAC that 50% was used for the entire adjustment. This is not correct.

This is how the Projected Housing Adjustment is applied:

(Counts at the end of the previous year - counts at the beginning of the contract) x Contract Cost Yearly Rate + (# new houses/cottages added during current year x 50% of Contract Cost for that year).

As a note, subsequent to our initial IRAC application, IWMC processed the housing adjustment for October contracts. The projections used at the time of application were actually underestimated. Our actual Capital Region housing adjustment was \$197K (projected 180K), Central at \$104K (projected \$83K), Eastern \$17.5K (projected \$14.6K) and Southern Kings was \$17K (projected \$13K). The West Prince and East Prince contracts both have an August contract start date, and the projected housing amount of \$13K was paid for both East Prince and West Prince for 2019/2020.

Our under-estimation of \$44,900 is reflected in the attached **Chart 2**.

3. Fuel Adjustment

Please note that the starting point of 132.0 cents +/- 5% of the Minimum Self Service Diesel price was used for all contracts with the exception of Eastern Kings.

The Eastern Kings contract is an older contract originally based on the Full Serve Diesel price with no +/- %. IWMC used 137.8 as a starting point for this contract and projected a 3 cent per year increase.

The IWMC calculations for fuel adjustment originally supplied with our application are a better estimation than those provided by IRAC. The Eastern Kings Fuel Adjustment is as follows:

2019/20	$(140.8 - 115) \times 700 = \$18,060K$
2020/21	$(143.8 - 115) \times 700 = \$20,160K$
2021/22	$(146.8 - 115) \times 700 = \$22,260K$
2022/23	$(149.8 - 115) \times 700 = \$24,360K$

4. Residential Min-Max Disposal Fees

The Cap@\$30 is not a direct calculation on the number of transactions multiplied by \$30. Loads are weighed at our facilities, and we propose to cap them at .26 tonnes @\$30. Currently, our cap is \$20, and loads are capped at 0.17 tonnes. By increasing this fee, IWMC will have increased revenue from customers delivering more than 0.17 tonnes, however, their loads will be capped at the .26 tonne point.

Calculations provided to IRAC reflect increased revenues based on transactions occurring in 2018 that fit into the above parameters (ranging from load weights over .17 up to .26 @ \$115/tonne). Not all customers will see an increase, only those delivering over .26 of a tonne.

5. Out of Province (OOP) Contaminated Materials

Volume for this material has traditionally been very low (less than 50 tonnes). The additional revenue of less than \$12,500 will impact ONLY out-of-province users as we do not believe that Islanders should be subsidizing this service. The contaminated material is most often very bulky in nature (i.e. creosote timbers). This is undesirable material and it uses up a great deal of landfill space. It cannot be compacted or disposed of in any other manner on PEI. IWMC wishes to increase the rate for non-PEI residents and/or businesses only.

6. Out of Province (OOP) Contaminated Soil

There is a huge difference with respect to disposal for contaminated material and contaminated soil. As outlined above, the contaminated material must be buried. It uses up valuable landfill space and is undesirable to our operations.

Contaminated soil can be accepted from out-of-province customers, treated, then used as a resource for daily or intermediate cover material for the landfill. The treated soil reduces the amount of island-sourced soil material required for cover material. The charge is higher for out-of-province customers simply to ensure that Islanders are not subsidizing the cost for the service. Pricing is not based on providing a disincentive.

Impacts on Net Assets & Cash Flow

IWMC's recalculations on the above are reflected in the attached **Chart 2** (Impact on Net Assets). Please note that IWMC's consolidated financials include Environmental Industrial Services Inc.'s (EISI) retained earnings. For the purpose of this exercise, we noted the portion belonging to EISI and used only IWMC's portion for the calculation.

The Adjusted Cash Flow calculation provided by IRAC does not include Capital Asset additions and/or replacements acquired during the year. Based on the last three years, these acquisitions have ranged from \$1.3M to \$1.7M, therefore, we have used a \$1.5M annual average for our cash flow projections. Our acquisitions, when possible, are obtained through operations, without outside financing. Please refer to **Chart 3** for an updated Cash Flow calculation. Examples of typical acquisitions obtained through operations include:

- * compost & waste carts (annual increases re housing counts & ongoing replacements for aging carts);
- * passenger trucks/cars for field work;
- * roll-off trucks;
- * improvements & equipment at disposal facilities

IWMC obtains financing for significant acquisitions such as construction of landfill cells and specialized equipment, for example landfill compactors and composting screeners.

Our facilities have now been in existence for over 20 years. It can be assumed that as facility

components and equipment get older, funds must be securely in place to ensure no disruption to services occurs as a result of equipment failure. We can further expect that these aging assets may be due for updates on a more frequent or ongoing basis with each accumulated year of use. In addition, given that approximately 75% of the revenue we receive is expended for contracts, the Corporation must ensure funds are in place to continue to provide collection and disposal services in the event of a contract disruption/dispute.

As outlined in the professional opinion by Grant Thornton, our financial auditors, the Corporation's current level of retained earnings even with the submitted proposed price increases is well below what an organization like IWMC should have. If the current proposed rate increases are not approved, IWMC will have no option but to borrow additional funds for almost all future capital replacements. This will result in significant increases to interest costs, ultimately being recouped by larger increases in rates paid by our customers in the future.