



WM01303

IN THE MATTER of a review of the rates charges by the Island Waste Management Corporation.

Interrogatories of Commission Staff

November, 2011

Commission staff hereby requests a response to the following written questions.

Question No.	Description
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| Q-1 | The IWMC financial statements for the period ending March 31, 2011 shows an expense of \$200,000 for the Community of Miltonvale Park. Note 6 to these financial statements indicate a market value of the fund of \$244,792. When will the additional monies be transferred to Community of Miltonvale Park. |
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IWMC Response:

IWMC entered into an agreement with the Community of Miltonvale Park in 2000. This Agreement is in Appendix 16 of our application and outlines that IWMC was to place the amount of \$200,000 in trust to the Community to be used for the costs associated with connecting to a central water system once it became available to the community. In early 2011, the community advised IWMC it would be seeking these in-trust funds to help cover the cost for hooking up to the Charlottetown water system. The amount actually paid to the community was the initial amount of \$200,000 plus interest up to the date they received the funds. The amount paid to the Community in October, 2011 was \$244,792.

In addition to the in trust amount, IWMC is also to provide each resident at the time of the agreement a hook up allowance of \$700 per household. The additional funds will be paid by IWMC to these 67 individuals when IWMC receives confirmation from the Community that they have been connected to the new system. We anticipate that most of these homes will likely hook up in the summer of 2012.

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| Q-2 | The operations of EISI are now included with the financial results of IWMC. Please provide further details on the financial and operational relationship between IWMC and its new subsidiary EISI. For example, are financial transactions between the two entities recorded at fair market value? Does IWMC staff or resources get involved with EISI activities? Has IWMC accepted any potential liabilities of EISI? |
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IWMC Response:

EISI is a wholly-owned subsidiary of IWMC. Both companies are run completely separate and independent of each other. Each has individual financials, A/P, A/R , payroll, etc. As indicated in Note 2 of the financial statements for consolidation purposes as required for wholly-owned subsidiary companies, EISI's assets and liabilities are recorded at FMV. IWMC charges EISI a management fee which includes overhead, resources, and administrative staff utilized by EISI. On the consolidated financial statements, these fees (revenue in IWMC and expense in EISI) offset each other. EISI does perform work on our leachate system located at East Prince Waste Management Facility, but all costs incurred are charged to IWMC similarly to all other EISI customers at full cost recovery .

Q-3

The financial projections provided in the application incorporate a 3% cost of living increase for most expenditures. What rationale supports this cost of living increase rate? Currently, the Bank of Canada has set 2% as a target inflation rate which it incorporates into fiscal policy.

IWMC Response:

As outlined in Appendix 4, IWMC had to make several assumptions with respect to annual inflationary cost increases when preparing the 5 year projections. IWMC was aware of the Bank of Canada's estimates which indicates inflation was predicted to run between 2-3%. We were also aware that for the month of September 2011 the rate was actually 3.2% and the rate has been above 3% for 6 of the last 7 months.
<http://www.tradingeconomics.com/canada/inflation-cpi>

In addition, as we were developing our 5 year projection, we felt a 3% per annum was actually being optimistic. The 3% rate was a just and reasonable assumption based on historic data. The average inflation rate since 1915 in Canada has been 3.24%. IWMC did not feel a 2% inflation rate to be realistic for a one year projection let alone applying it for a 5 year period.

IWMC only has the option to change fees once per year. If IWMC were to use a 2% rate and inflation was higher, we would be in a situation where further losses would result. If we used a 3% rate and the rate came in under, it is understood that IWMC is responsible for the ratepayers money and potential savings caused by anticipating lower than expected assumptions would result in a savings to these ratepayers. Finally, a significant portion of IWMC's total expenditures represent costs of energy (diesel fuel). Although optimistic, we really feel this is more than likely to increase beyond the 3% level. Based on these factors, IWMC management feels that 3% per year for the 5 year projection is more than a reasonable assumption. In fact, we actually felt that the average rate for the next 5 years based on IWMC's high energy component (diesel fuel price) will actually be significantly higher than 3%. In IWMC's opinion we did not feel the rate of 2% was a reasonable assumption.

Q-4 Please provide a breakdown of the cost increases associated with the requested increase in

the residential contaminated soil of \$33/ton to \$40/ton.

IWMC Response:

The proposed rate increase for this material from \$35 to \$40 per tonne is to actually bring the disposal fee closer to the actual costs associated with treating this material. The treatment of contaminated soil involves spreading and turning the soil out in thin layers on top of the landfill and allowing the materials to dissipate in the air. This is accomplished utilizing heavy equipment, and it can take up to several years to achieve a point where the hydrocarbon levels decrease to acceptable levels in the soil. There are many variables that determine the length of time required to treat these materials.

IWMC has investigated developing a better system to treat the current volume and even additional volumes of this type of material. The expected cost to treat contaminated soil to a degree that is satisfactory to the Prince Edward Island Department of Environment will actually cost \$60-\$70 per tonne. While IWMC does not keep or track the detailed costs associated with the treatment of this type of material, we do know that the costs for the current process and level of work performed far exceeds our existing and proposed disposal fee rates. In fact, the Corporation would actually prefer not to accept contaminated soil, but unfortunately there exists no other option at present other than off-Island transportation for homeowners and businesses. IWMC attempts to keep the disposal fee reasonably low to help ensure that consumers are not inclined to illicitly dump this hazardous material.

- Q-5 The Schedule of Disposal Expenses (Schedule 6) to the financial projections indicate a 5.1% overall increase in the cost of disposal (\$6,626,150 Actual 2010/11 to \$6,965,000 Projected 2011/12) yet the application does not request any change in tippage fees. Approximately one half of the expenditure increase or \$187,000 relates to cost increases at Waste Watch Drop Off Centres (WWDC) and a Roll Off Container truck used to service the WWDC. It is our understanding the WWDC mainly serve tippage oriented waste drop off. If this is correct should some of the revenue requirement come from an increase in tippage fees?

IWMC Response:

The Disposal Expense increase as outlined above primarily relates to the increasing amounts of unbilled/free or lower than cost disposal rates for homeowners delivering materials into our drop off sites. This includes landlord permits (free materials taken in by landlords), free large household item disposal (mattresses, fridges, stoves, etc.), HHW materials (paint, chemicals, etc.) and the \$20 cap per truckload charge to residents for sorted compost, waste and recyclable material.

The conception that our WWDC locations serve full tippage oriented customers is not the case. Most of our WWDC customers are residential customers seeking disposal alternatives for excess materials and items that are not collected through regular household collections. Commercial customers using WWDC services pay full tippage rates and are not currently an issue for these facilities.

It is important to note that WWDC facilities were not intended to be financially self-supportive or even result in a breakeven situation. They are simply a convenience for customers and an extension of service to homeowners. IWMC has real costs associated with a homeowner dropping a mattress (as an example) off “free of charge” at any of its WWDC locations. The Corporation is then accountable to store the material, transport it to a final disposal facility, and ultimately for the financial costs associated with proper disposal.

Q-6 Please describe the staff roles and job titles of the various departments of IWMC. Ex admin., customer service, disposal fee program, education, EPWMF, CCF, WWDC, etc.

IWMC Response:

IWMC staff positions are located at the following locations:

- 6 Waste Watch Drop-Off Centers (WWDC'S)
- East Prince Waste Management Facility
- Customer Service Call Center
- Central Compost Facility
- PEI Energy Systems
- Charlottetown Administration Office

The management positions outlined below are responsible for the staff located at these facilities.

CEO– Responsible for all operations of IWMC, staffing, program development, collections, disposal, contracts, customer service and financial reporting and analysis.

CFO– Responsible for all financial operations, payroll, administration, A/P, A/R

Disposal Manager– Responsible for all disposal operations and staffing at all 6 WWDC locations, the Central Compost Facility, PEI Energy Systems, and the East Prince Waste Management Facility.

Customer Service Manager– Responsible for all customer service issues and staffing at our customer service call center.

Public Relations Manager– Responsible for all advertising, public relations, education, website and other publications.

Q-7 Please provide financial projections based upon a 2% cost of living (col) increase.

IWMC Response:

As requested we have attached projections based on a col increase reduced from 3% to 2%. Click [here](#) for 2% projections (without increase) and [here](#) for 2% projections (with increase).

Q-8 Has an analysis been prepared which reviews the suitability of depreciation rates to reflect the change in useful life of the capital assets.

IWMC Response:

IWMC had an independent review of the assets held in conjunction with the Central

Compost Facility. Initially this facility was being depreciated at cost over a 25 year period. Changes were implemented to break the assets down into 5, 10, 15, 20 and 25 year useful life periods. These changes, which are reflected in our financials, are more realistic and better reflect the costs associated with replacing these assets when they require replacement. In addition, IWMC works closely with its external auditors to ensure proper depreciation rates are applied to all assets. We are confident that our current depreciation costs reflect the actual possible timing of the replacement of these assets.

- Q-9 IWMC's audited financial statements show substantial cash on hand balances at year end. Please provide a financial projection of cash on hand by month for the remainder of the current fiscal year and the fiscal years presented in the projected financial results presented in this application. What is IWMC's cash management policies regarding excess cash on hand balances?

IWMC Response:

See attached cash flow projections on a monthly basis for the remaining fiscal year and on an annual basis for the next four years. (Click [here](#) for cash flow projections.)

IWMC maintains a fairly consistent cash balance each month. On an annual basis, the cash generated from revenues is usually offset by the expenditures and principal and interest on the debt. IWMC incurs about \$1.5 million in routine expenditures in any given month not including any unforeseen repairs and maintenance or the addition of capital assets.

Originally IWMC was included in the Provincial Pooling Banking System but has since withdrawn and stands alone for banking. There were pro's and con's associated with removing ourselves from this system, but the net change was that IWMC would generate interest revenue from its daily cash balances to help reduce fees required by our ratepayers. IWMC attempts to finance capital acquisitions through operations as opposed to external financing as external financing costs would impact the breakeven user fee amount. As an example, IWMC recently added a cell to our current landfill at EPWMF at a cost of \$2.8M. The total amount was paid without the addition of interest charges which would have ultimately resulted in increased costs passed to our ratepayers.

IWMC has explored the acquisition of short-term GIC's for any cash balance in excess of the required cash flow. Because funds could only be invested short term, IWMC management feels that interest gained through our current banking processes would be equivalent given today's interest rates.

- Q-10 Please provide an update to the Commission regarding the status of various issues, identified during the last IWMC application, regarding tenant-landlord rental properties and waste watch compliance.

IWMC Response:

On its last application IWMC requested the removal of the landlord permit process that allowed landlords to take tenant materials into our drop-off locations free of charge. This

was reviewed by IRAC and the permit process remained unchanged. We do not seek any changes to this existing program at this time.

Considerable effort is extended to both landlords and tenants of multi-family dwellings to facilitate their involvement in the Waste Watch Program. Ongoing activities/programs include:

- Working one-on-one with landlords and/or collection contractors to troubleshoot specific sorting conflicts, challenges and/or barriers to ensure all tenants can effectively participate in the program.
- Development of specific and custom literature including Tenant Participation Guides, handouts targeted to specific trouble issues (i.e. plastic bags in compost), custom signage for apartment common areas/laundry rooms to reinforce mandatory participation and provide education on common sorting errors, and custom signage for outdoor sorting containers as required. Landlords are encouraged to ensure each and every tenant is equipped with the necessary information to comply with Waste Watch guidelines.
- At the request of landlords, IWMC produces and provides (at no cost) custom posters to advise tenants of changes implemented by their own property management groups on collection methods (i.e. placement of blue bags, etc.)
- To address non-compliance issues, IWMC prepares direct letters to tenants on behalf of the Corporation, jointly with respective property management groups, to outline common errors and provide applicable educational material.
- As requested, IWMC conducts training presentations to tenants. To further support landlords, workshops are held with special target groups such as PEI Mental Health Association, Community Connections and various educational groups and institutions when applicable to provide students living in private apartment buildings the information required to fully participate in the program. Working with Holland College, training tools have been designed around Waste Watch that will be included in their English as a Second Language program.
- Sorting Guides are provided to landlords in French and English. Picture sorting guides are also available to help assist residents of other languages;
- IWMC works with owners of new apartment buildings, and are often involved at the early planning stages to ensure adequate space and details are incorporated into plans for sorting stations within units, for outdoor receptacles and also to allow sufficient room for collection vehicles;
- Landlords are encouraged by IWMC and IRAC to include a clause in their rental agreements noting that compliance to Waste Watch is a condition of rental at their properties.
- When significant collection problems occur due to unacceptable sorting, IWMC works diligently with property owners, and when appropriate, provide a 'fresh start'. Cleanups, directed by the Manager of Customer Services are provided under some circumstances (at no cost) to help landlords deal with rejected material. In these cases, the cleanup is often one step in a mutually agreed upon strategic approach to improving participation. This would be followed by other tactics (such as mandatory tenant attendance in a training session, hallway monitoring, etc.).
- Ongoing Customer Service support is available to property owners to manage significant challenges as they occur. As an example, IWMC has recently worked

jointly with owners of a specific apartment building to help resolve an issue regarding syringes--a potentially dangerous conditions for tenants and collection drivers. In this case, the solution involved IWMC liaising with a local pharmacy to provide proper sharps containers at no cost to the landlords and tenants for strategic placement in the apartment building.

- Landlord permits are offered by IWMC to waive the fee associated with material abandoned by vacated premises. In 2010, as an example, a total of 659 permits were issued. Over the past two years, total weight for abandoned tenant material received by IWMC at no charge was approximately 375 metric tonnes.
- As required, IWMC supplies carts to apartment facilities, replaces missing and damaged carts, exchanges large carts for senior-size carts, and provides repairs. In some circumstances, and through ongoing negotiation with property owners, carts are replaced with dumpsters, and blue bag 'boxes' are either delivered or removed from properties. The cost of transporting carts, dumpsters, etc. is at IWMC's expense.
- The Corporation continues to work with the City Of Charlottetown to offer a second recyclable collection to properties of 4 or more units within city boundaries. While the City solely funds this second collection, IWMC provides customer service, administrative tools, and educational material to support this third-party initiative.

As outlined above, the financial support provided by IWMC to the multi-unit apartment sector is very significant and is ongoing. It is, however, understood that IWMC needs the support of landlords to make the program work. To this end, when we have support from landlords and property management groups, many challenges can be resolved. In fact some of the best customers with respect to proper sorting of material are often found in multi-unit buildings with supportive landlords. It is IWMC's opinion that many successes can be achieved when working with landlords who genuinely have a desire to make the program work.

DATED at Charlottetown, Prince Edward Island, this 14th day of November, 2011.



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