



ISLAND WASTE MANAGEMENT CORPORATION

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March 13, 2020

Jonah R.K. Clements
General Counsel
Island Regulatory & Appeals Commission

Dear Mr. Clements,

With respect to the application by Island Waste Management Corporation (IWMC) requesting that the Island Regulatory and Appeals Commission (the "Commission") approve new rates for waste management service effective January 1, 2020, the Commission requested a response to the Commissions Rate Application Review that was forwarded to IWMC on March 11, 2020. Please find below IWMC's response and further information on our application:

BACKGROUND

As was indicated in IWMC's initial application filed in October 2019 any rate changes to household and cottage user fees for 2020 has to be set and provided to the Province of PEI in time for any new rates to be reflected in the 2020 provincial property tax invoices. Based on this and the time frame required for IWMC to input this data and provide it to the province a decision on our rate application has to be received prior to **March 20, 2020** in order for IWMC to meet this tax bill deadline set by the province.

IWMC has provided the Commission responses to interrogatories dated December 3, 2019, and December 24, 2019. In addition IWMC was asked to respond to reviews from the commission dated February 11, 2020 and March 11, 2020 (RATE APPLICATION REVIEW).

RATE APPLICATION REVIEW

In general the rate application review supplied is a summary of what IWMC has provided for consideration to the Commission in the application process and opinions provided by the organization preparing the review. Based on the opinions provided in the "Review" it would suggest that IWMC's request for disposal fee changes to Asphalt Shingles and Out of Province (OOP) Contaminated Material was justified. In addition IWMC's request to establishment of a new rate category for Out of Province (OOP) Contaminated Soil was recommended. However the "Review" also suggested that it disagreed with IWMC's application request for increases to Household and Cottage Fees and an increase to the Min-Max Household disposal fees. IWMC stands by its application and disagrees with the "Review" suggestions and recommendations for not allowing such increases and provides the following comments with respect to each.

Household and Cottage User Fees

- Clearly the opinion of the review with respect to reasonable Net Asset for a Crown Corporation is different than the opinion of IWMC and the professional opinion it received on this subject. It should be pointed out that unlike other Crown Corporations the province has outlined that IWMC is to operate with no funding from the government of PEI and is to set rates that are based on full cost recovery including costs for depreciation and replacement of its assets. The suggestion in the "Review" that assets such as compost and waste carts, vehicles and roll off equipment should be financed by long term debt is not in touch with the reality of IWMC, Government Departments and or any other Crown Corporation and is not

realistic. Unlike Government Departments who receive budget funding for such items IWMC is required to fund these additions through its operations. Large capital expenditures like landfill cell construction and larger equipment is financed via debt from the Province but the suggestion in the "Review" that replacement carts and light vehicles etc. be financed is not what the Province expects IWMC to do.

- The "Review" suggested that there is sufficient Net Asset balance resulting from multiple previous years of surpluses to absorb these losses until the end of 2021/22 as well as sufficient cash flow to support operations for the same time period. This is not correct! Although IWMC does have surpluses from prior years of operations these surpluses are not held in cash. The majority of this cash was used to replace aging assets. Should the proposed rate application not be approved IWMC will actually have to immediately seek refinancing from the Province in order to have sufficient cash flow to meet its operational requirements. IWMC will not have sufficient cash to fund day to day operations without seeking refinancing.
- IWMC has not seen any rate increases since January 2012. As indicated in ALL of IWMC's submissions the contracted collection costs for the collection of Household Compost/Waste and Blue Bag collections since the date of our last increase have seen an average increase of \$18.30 per household and or a weighted increase of \$19.81 per household. In IWMC's Application we are only seeking an increase from our household users of \$8.00. Additionally the increased cost for cottage collections has seen an increase from \$24.38 per cottage in 2012 to \$74.86 an increase of \$50.48. In IWMC application we are only seeking an increase of \$20.00. These numbers clearly outline that the increases requested are more than reasonable in fact would suggest larger increases are warranted.
- The "Review" suggested that a rate increase for household user fees is not justified at this time but recognized that a rate increase may be justified for 2021/22. In its opinion it did not consider as IWMC has indicated on ALL its submissions the reality of the possibility of a later "Rate Shock" increase. Instead of a modest increase as proposed the requirement of a dramatic increase in the near future. In the opinion of IWMC the proposed modest increase of 3.9% since 2012 is fair and reasonable as proposed to having to seek a far greater increase in the future. The consideration of "Rate Shock" should be considered. Further having IWMC have retained earnings allows it the flexibility to cover unforeseen dramatic events that have been experienced in the past and or will most likely happen in the future.
- The "Review" suggested that most of IWMC's Revenues are fixed user fees and revenue declines are less than likely. IWMC cannot understand how any review could come up with this conclusion. Although it is correct that Household User fees are fixed and can be predicted with a level of certainty this is not the case with disposal revenue. IWMC has seen and will continue to see significant changes to the revenue it receives under our disposal fee revenue. As clearly indicated in the financial information provided from prior years it is not uncommon to see this revenue change significantly year to year. In fact from 2018 to 2019 this revenue dropped by \$234,000. A drop over 5%. Although after our submission the current economic climate will most likely see this revenue decline substantially in 2020-21. Further the "Review" indicated that even if there was a decline in these revenues that expenditures would be decreased proportionately. This comment would suggest that the author is either not familiar with IWMC operations and or cannot distinguish between fixed and variable operational costs. The truth is there would be no reduction in expenditures should IWMC see a reduction in disposal fee revenue.

- The “Review” suggested the following factors in making a decision to approve or not to approve the requested rate increases. In all cases it is IWMC’s opinion that the Answer to all is a resounding YES.
 - o Is there an immediate overall financial need for additional revenue (YES)
 - o Is the allocation of the increase fair amongst the categories of household users (YES)
 - o Are there reasonable grounds for increasing the disposal fees (YES)

Residential MIN- MAX

- The “Review” indicated that the projected revenue resulting from a fee increase appears reasonable then went on to indicate that 45% of the household user fees cover disposal expenditures not covered by disposal fee revenue. The “Review” clearly does not understand that the materials collected from households and cottages should in fact be covering the costs for having this material properly disposed as well. The cost to the household and or cottage owner does not end with just having it collected curbside! IWMC then has to dispose of these materials by either having them recycled (blue bag) composted (green carts) and or landfilled or sent to PEI Energy (waste carts) all of this is covered in our disposal costs. The Household and Cottage fee collected also has to pay for the disposal costs of this material, not just the collection cost as indicated in the “Review”.
- The “Review” suggested that the requested increase in the Min-Max Fee represented a 50% increase from \$20-\$30 and then suggested that disposal costs only increased from 2016 to 2019 by 7%. This is a correct statement but the “Review” does not understand that even with the proposed increase IWMC will continue to subsidize all of these transactions. As an example if a residential customer takes 1 tonne of material to our site now it would pay \$20, with the proposed rate change the customer would pay \$30. However should a “commercial” customer take the same volume of material to our site they would pay \$115.00 per tonne. IWMC is then responsible to transport this material to the final disposal site and pay the corresponding disposal fee that is well above \$30.00 per tonne.

SUMMARY

Based on IWMC’s opinion all rate application requests are reasonable and have been supported by information that has been supplied. Further as indicated IWMC requests a decision from the Commission on or before March 20, 2020 so it can meet the deadline as issued by the Province of PEI.