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Interrogatories of Commission Staff

TO: Island Waste Management Corporation
FROM: Cheryl Mosher, Senior Financial Advisor
DATE: January 19, 2021
RE: Rate Application
DOCKET: WM01305

The Island Regulatory and Appeals Commission (the “Commission”), in assessing the Rate Application submitted by Island Waste Management Corporation (“IWMC”), requests responses to the following interrogatories:

Application:

1. Section 1.2 “Customer Base and Services” indicates that there are 12,000 commercial base customers in the Province to which IWMC provides disposal services.
 - a. Please explain what constitutes a commercial customer, the process for billing a commercial customer, and the manner in which their waste/compost/recycling are collected.
 - b. Does IWMC provide roadside pick up for commercial customers?
 - c. Does IWMC differentiate between commercial customers, such as large box stores and smaller locally owned stores? If so, please describe the billing and collection process for each.
 - d. What rate(s) are commercial customers charged?
 - e. What is the average cost to serve commercial customers? Please provide the detailed calculation, including the formula, inputs and assumptions.
 - f. Why has IWMC not proposed to change the rate(s) charged to commercial customers?
2. Please provide a detailed cost allocation of expenditures for each of IWMC’s rate classes. This will assist the Commission in determining the appropriateness of the proposed rate changes.

3. Please provide a table that shows all IWMC rate classes (not solely residential and cottage customers), the number of customers in each rate class, the average cost to provide service to each rate class, the rate currently charged by IWMC, and the proposed change in rate (if any).
4. Section 3.4 “Revenue Requirements” indicates that “*It is the opinion of IWMC that the current proposed rate changes should actually be higher than what is actually being requested*”. Does IWMC intend to apply for an additional rate increase next year?
5. Section 3.5 “Capital Budget & Financing” indicates that future capital expenditures will require external financing. Per IWMC’s Appendix #7 - Depn 2021-24 Tab, IWMC is expecting to purchase \$1,000,000 in capital assets for the 2022 year; however, in Appendix #7 - Interest on long term debt Tab did not indicate any future debt agreements or related interest expenses.
 - a. How does IWMC intend to pay for these capital additions?
 - b. Does IWMC have long term capital planning completed? If so, please provide a copy of the long term capital plan.
 - c. How do other waste management companies who follow a cost of service model cover the costs of future capital assets?
 - d. Are sinking funds used in other jurisdictions to collect funds to pay for future capital expenditures?
6. Per review of IWMC’s application, a projected balance sheet and cash flow statement has not been provided for the 2020/21, 2021/22, 2022/23, or 2023/24 years. Please provide both a projected balance sheet and cash flow statement for the years 2021 to 2024.
7. In Section 4.5 of the Application, IWMC states that there was only one bidder on the 2018 RFP for the collection and processing of recyclables, and that the annual contract cost has increased substantially. Please explain why the recycling contract increased by more than 50% when it was renegotiated in 2018.
8. In Appendix #2 there is a material type “Non-Compliance Bags”; however, in Appendix #3 this appears to be renamed to Blue/Black Bags. The rates in both Appendix #2 and Appendix #3 are the same. Please confirm whether these are the same or different rates.

Contracts:

9. **Label Construction & Sanitation** – Contract extension letter dated January 15, 2019 references monthly contract payments and annual housing and fuel adjustment being processed based on the terms of the original contracts and any amendments.
 - a. Please provide a copy of the original contracts and any amendments thereto for the East Prince Area and West Prince area which have been extended until August

31, 2024. The tender submissions for the previous contract were provided but the contracts were not.

- b. For the compost and waste collection contracts, please provide the calculations and assumptions (i.e. household, cottage, and extended cottage counts, average fuel prices, etc.) used to calculate the housing and fuel adjustments for 2021 to 2024.
 - c. Please explain why household counts dating back to the original contracts are used in the calculations instead of the actual household counts used for the revenue projections.
10. **Superior Sanitation** – Contract extension letter dated January 15, 2019 references monthly contract payments and annual housing and fuel adjustment being processed based on the terms of the original contracts and any amendments.

 - a. Please provide a copy of the original contract for the Capital and Central area which expired on October 31, 2019. The tender submissions for the previous contract were provided but the contract was not.
 - b. For the compost and waste collection contracts, please provide the calculations and assumptions (i.e. household, cottage, and extended cottage counts, average fuel prices, etc.) used to calculate the housing and fuel adjustments for 2021 to 2024.
 - c. Please explain why household counts dating back to the original contracts are used in the calculations instead of the actual household counts used for the revenue projections.
11. **Superior Sanitation** – Contract extension letter dated January 15, 2019 references monthly contract payments and annual housing and fuel adjustment being processed based on the terms of the original contracts and any amendments.

 - a. Please provide a copy of the original contracts and any amendments thereto for the Southern Kings and Eastern Kings area which expired on October 31, 2019. The tender submissions for the previous contract were provided but the contracts were not.
 - b. For the compost and waste collection contracts, please provide the calculations and assumptions (i.e. household, cottage, and extended cottage counts, average fuel prices, etc.) used to calculate the housing and fuel adjustments for 2021 to 2024.
 - c. Please explain why household counts dating back to the original contracts are used in the calculations instead of the actual household counts used for the revenue projections.

12. **Green Isle Environmental Inc. (Recyclables)**

- a. Please provide a copy of the prior contract for recyclables.
- b. Please provide the assumptions and calculations used to determine the projected contract amounts and wage, housing and fuel adjustments in 2021 to 2024. Please ensure the calculation can be traced back to the agreement provided.
- c. **Per Appendix #7 – Disposal Exp Tab – Line 60** - Is there a separate contract with Green Isle for this line item? If so, please provide it.

13. **ADI International (Central Compost Facility)**

- a. Every second page in the original operating agreement dated April 1st, 2008 is missing. Please provide the missing pages.
- b. Please provide a copy of the amendment which extended the original operating agreement to March 31, 2014.
- c. Please provide the detailed assumptions and calculations used to determine the projected amount from **Appendix #7 – Contracts Tab – Line 60** for 2021 to 2024 (excess tonnage, diesel adjustment, propane adjustment, etc.).

14. **PEI Energy Systems**

- a. Please provide the detailed calculations and assumptions used for the 2020/21, 2021/22, 2022/23, & 2023/24 years of the PEI Energy Systems Contract used in the projected financial statements. Please ensure the calculation can be traced back to the contract provided in Appendix #9.

Financial Statements (Appendix #4 & #5):

15. **Consolidated Statement of Operations and Changes in Net Assets** – We understand that the expenditures for the Tire collection and disposal and the Decommissioning and Monitoring programs are 100% offset by the program revenue. Please explain how these programs work.
16. **Consolidated Statement of Operations and Changes in Net Assets** – In the following table, please explain why there is a variance between the Audited Financial Statements for the 2020 year-end and the Financial Statement presented in Appendix #6, specifically in regards to the Stewardship & Other revenue and expenditures.

Comparison of Audited Financial Statements & Appendix #6			
	Audited Financial Statements 2020	Appendix #6 - Financial Statement Tab 2020	
Revenue			
Stewardships and Other	\$ 377,433	\$ 37,606	
Expenditures			
Stewardships and Other	288,968	-	
Net Revenue	<u>\$ 88,465</u>	<u>\$ 37,606</u>	

17. **Consolidated Statement of Cash Flows** – In 2019, IWMC received Government Assistance of \$969,443. Please explain why IWMC received government assistance and how the assistance was used by IWMC. Does IWMC anticipate receiving government assistance in 2021 or future years?
18. **Appendix #5 – Page 6 – Schedule of Revenues** – Under Disposal Fees there are two line items (1) Residential fees \$2,361,947 and (2) Residential disposal fee expense \$2,361,947. Please explain what these line items are, as well as why they are not included in Appendix #6, #7 or #8.

Financial Projections:

19. **Appendix #7 – Financial Statements Tab** – The net loss forecast for the years 2020/21, 2021/22, and 2022/23 has increased significantly since the 2019 rate application. The increase in the net loss ranges from approximately \$363,000 to \$782,000. Please explain the changes in the forecast net losses for each of the above mentioned years.
20. **Appendix #7 – Financial Statements Tab** – What inflationary rates have been assumed in the projections for 2012 to 2024?
21. **Appendix #7** – Please provide IWMC’s rationale for the general application of a 2% increase in expenditures unless otherwise noted in IWMC’s comments in the projected financial statements.
22. **Appendix #7 – Revenue Tab** – The revenue sources presented in the spreadsheet relate to residential and disposal fee revenues. There is no mention of commercial

customers or commercial revenues. Please explain where the commercial revenue is presented in the revenue calculation.

23. **Appendix #7 – Revenue Tab** – Disposal revenues for 2020/21 are projected to be lower than the 2019/20 actuals, as it combines year-to-date information as well as projections for the remainder of the year. Please explain why IWMC expects the revenue to be approximately \$709,000 less than the 2019/20 year-end.
24. **Appendix #7 – Revenue Tab** – Please provide IWMC’s rationale for a 2% increase in disposal revenues in 2021/22, and a 4% increase in disposal revenues in both 2022/23 and 2023/24.
25. **Appendix #7 – Disposal Exp Tab** – The workbook indicates the supervisor of the East Prince Waste Management Facility expects the Repair & Maintenance costs will increase by approximately \$13,000 in the 2020/21 year and future Repair & Maintenance costs will continue to increase by 2% per year. Please explain why IWMC is forecasting the Repair & Maintenance costs to increase in 2020/2021 and future years.
26. **Appendix #7 – Disposal Exp Tab** – The workbook indicates the supervisor of the East Prince Waste Management Facility expects the Supplies & Materials will increase by approximately \$35,000 in the 2020/21 year and future Supplies & Materials will continue to increase by 2% per year. Please explain why IWMC is forecasting the Supplies & Materials to increase in 2020/2021 and future years.
27. **Appendix #7 – Disposal Exp Tab** – The workbook indicates the supervisor of the East Prince Waste Management Facility expects the Contaminated Soil costs will increase by approximately \$13,000 in the 2020/21 year and future Contaminated Soil costs will continue to increase by 2% per year. Please explain why IWMC is forecasting the Contaminated Soil costs to increase in 2020/2021 and future years.
28. **Appendix #7 – Disposal Exp Tab** – There is a new line item called “Testing” under the “Energy from Waste” section of this workbook. Please explain what this line item refers to and provide an explanation of the new expense.
29. **Appendix #7 – Disposal Exp Tab** – The carbon line item under “Energy from Waste” section of this workbook was not broken out on the historical information as compared to budget presented in Appendix #6.
 - a. Please provide the historical information as compared to budget for this account.
 - b. This account has increased from approximately \$80,000 in 2019/20 to a projection of \$160,000 in 2020/21. Please explain the increase in costs for this account
30. **Appendix #7 – Disposal Exp Tab** – The Repairs & Maintenance costs under the Central Composting Facility in the workbook are projected to increase by approximately \$40,000 in the 2020/21 year and future Repair & Maintenance costs will continue to increase by 2% per year. Please explain why IWMC is forecasting the Repair & Maintenance costs to increase in 2020/2021 and future years.

Additional interrogatories may follow.

A handwritten signature in blue ink that reads "Cheryl Mosher". The signature is written in a cursive style with a light blue background behind the text.

Cheryl Mosher, CA, CPA
Senior Financial Advisor
Prince Edward Island Regulatory & Appeals Commission