



TO: Cheryl Bradley, Senior Financial Advisor, Island Regulatory and Appeals Commission

FROM: Tyson Bradley, Chief Executive Officer

DATE: February 14, 2025

RE: Response to Interrogatories on Application WM01308

1. In the application, IWMC proposes to increase Residential year-round, seasonal, and extended seasonal rates and includes a calculation of the proposed rate increase in both dollars and as a percentage. The proposed rate increases result in an increase greater than 10% for all three rate classes, which can be viewed as rate shock.

a. Does IWMC consider the proposed rate increase to be rate shock to their customers? If not, please provide justification why this does not constitute rate shock.

IWMC understands that a 10-12% increase may be substantial for some customers, however the increase is necessary and warranted based on underlying cost increases, attributed mainly to the new collection contracts and recent high inflation. We cannot justify deviating from proper application of the cost allocation analysis in order to arbitrarily propose a lower cost that would not allow for sufficient cost recovery. The service IWMC provides to the public needs to pay for itself each year.

In some circumstances, rate mitigation on such a percentage increase might be warranted. In this context, the impact is less than \$25 annually or 0.48 cents per week.

b. Has IWMC considered any alternative measures to mitigate the proposed rate increases? If so, what alternative measures have been considered or implemented?

Yes. IWMC went to RFP to gather competitive bids for collection services and selected what was the lowest bid. We now have a 5-year contract in place which will mitigate any future cost hikes for the next several years (at 3% annual rate increases). IWMC has begun to roll out its 5-year

Capital Plan which will help to reduce/mitigate the instances of high repair costs the company has been experiencing.

2. IWMC has received government subsidies to offset the approved rate increases in 2021, 2022 and 2024. In section 14 of the application, IWMC states that if IRAC approves the proposed rate structure for 2025, customers could feel the cumulative impact of three rate increases at once. For year-round Residential customers, this represents a cumulative rate increase of 27% over 2020 rates.

a. Has IWMC had any discussion with the provincial government in terms of the financial impact to ratepayers experiencing a cumulative impact of three rate increases at once? If so, what was the result of those discussions?

IWMC has notified government that a rate application has been filed with IRAC and provided information regarding the variance between the proposed rates for 2025 and the rate charged to customers in 2022, 2023 and 2024.

b. Has the provincial government indicated if they intend to offset any or all of the proposed increase to customers?

The provincial government has not advised IWMC of its intention with respect to rate increases.

c. Please confirm the rate charged directly to customers on their property tax bill in the 2024 year, and calculate the increase to customers if the proposed rates were approved and no government subsidies were received.

Year Round Service = \$213 + \$48 = \$261 (22.5% increase)

Seasonal Service = \$115 + \$15 = \$130 (13% increase)

Extended Seasonal Service = \$140 + \$31 = \$171 (22.1% increase)

d. What alternative measures have been considered or implemented to mitigate this impact to customers?

IWMC strives continually to manage costs and operate efficiently to provide an appropriate level of waste management services to its customers. In recent years the provincial government has assisted with cushioning the impact of rate increases by providing annual grants. However, any grant is decided on a year-to-year basis by the government and is therefore not something that

can be assumed and included in the proposed rate calculation. It is not something over which IWMC has control.

- e. **Have Commercial rates received any government subsidies to offset the increase in rates over the previous 3 rate periods? Yes. Please provide all details.**

Commercial Rate Approved for FY2024-25 (per tonne)	\$122
Government Subsidy for FY2024-25	<u>(\$ 22)</u>
Commercial Rate charged directly to Customers	\$100

The \$100 rate represents rates approved by IRAC in 2021 for FY2021-22, for which the PEI Government has provided grants to allow the rate to remain at \$100 per tonne.

- 3. **IWMC stated that the Consumer Price Index rose by 30% since 2015, but IWMC rates have only risen by 15% since 2015. Please provide data and source information for CPI calculations.**

CPI source of information was obtained from <https://www.bankofcanada.ca/rates/price-indexes/cpi/>

For the ten (10) years from January 1, 2015 to December 31, 2024 the published CPI rose from 124.3 to 161.2, which is an increase of 36.9. The mathematical calculation is $36.9/124.3 = 29.7\%$. At the time the application was being prepared, the December 2024 number had not been published so the November amount of 161.8 was used, which shows a change of 30.2% ($37.5 / 124.3$). A printout is attached in support of the amounts used.

Please see attached:

CPI Bank of Canada IRAC Interrogatories Question #3

- 4. **Section 4.0 - Revenue - IWMC discusses the various revenue streams and discusses IWMC's free drop off for large appliances, tires and bulk waste at WWDC. It also specifies that the free drop off programs are for residential customers and the costs of disposal are factored into residential rates.**

- a. **How does IWMC ensure commercial customers are not taking advantage of these free drop off programs?**

This matter is addressed in a number of ways, depending on the item.

Appliances – all appliances, generally known as “white goods” are accepted free of charge, whether residential or commercial. This is because they are a source of revenue. IWMC contracts with a metal recycler (such as A & S Scrap Metal) to crush and remove the goods on a regular basis. The revenue received is included in the model under Other Revenue – Scrap Metal, and is split 70/30 R/C.

Tires – all tires have an environmental tax collected at the point of sale and used by the province to collect and recycle the tires after use. Most used tires are disposed of directly at auto service businesses, car dealers, etc., IWMC does receive a small number of tires free of charge at its WWDCs whether residential or commercial, and the tire recycler (contracted by the provincial government) collects them regularly. There is no cost to IWMC, the recycler is paid by the province.

Bulk Waste – only residential bulk waste is accepted without charge at the WWDCs. This is controlled by knowledgeable and experienced staff who can easily identify whether an item is commercial or residential in nature when it arrives. Residential bulk items tend to arrive in a residential vehicle, either a half-ton truck or a utility vehicle. Commercial items arrive in larger lots via larger vehicles, and are different in nature than residential, such as commercial looking sofas, chairs, etc. For the most part, WWDC staff find it easy to distinguish between residential and commercial bulk items. The disposal of commercial bulk items are charged to commercial customers as commercial waste material.

b. Commercial customers could have similar items to dispose of. How are the disposal costs associated with commercial customers accounted for and included in the commercial cost allocation pricing?

The only direct cost associated with the three types of items in question 4 is freon removal, which is shown in Appendix A to the application. It is allocated 70/30 based on estimated tonnage from each. Other indirect costs are allocated as indicated in the appendix. Overall, the costs associated with commercial disposal have been allocated based on the proportion of residential/commercial activity.

5. Section 5.0 - Expenditures - IWMC’s expenditures and the method of allocation used in the cost allocation model are outlined in this section.

a. Has the method of allocation for the expenditures changed since the prior application?

No. Certain allocation percentages may change slightly from year-to-year due to current data

being used but the methodology itself has not changed.

- b. If so, please identify which expenditure assumptions have changed and provide justification for the change.**

Not applicable.

- c. A number of allocations are based on various employee's knowledge of the operations. Are the assumptions based on employee knowledge being reviewed annually?**

Yes.

6. Section 5.0 – Expenditures - As of the 2024 year, IWMC's previous residential waste & compost contracts have expired and IWMC has accepted new residential waste and compost contracts. These contracts have been awarded to GFL.

Additionally, the recycling contract expires in July 2025 and IWMC has negotiated a 3- year extension with GFL. Given that all residential waste, compost and recycling contracts have been award to one single company,

- a. Please explain the due diligence that was performed to ensure IWMC is receiving the best possible rate given all contracts have been awarded to one company.**

The contracts for the collection of organics and waste that preceded the new GFL Environmental contracts were entered into many years prior.

Following the pandemic and the resulting high inflationary period from 2021 through 2023, at the time the RFP for new contracts was circulated, in May 2023, it was obvious that a significant increase in collection costs should be anticipated.

The CPI in November 2012 was 121.9 and by May 2023 it had risen to 156.4, an increase of 28%. Over the same time frame, the collection cost being charged by Superior Sanitation for annual collection in the Capital Region rose from \$42.00 to \$48.62, a rise of only 16%. As well, the 12 month period prior to the RFP release in May 2023 showed much higher than normal inflation rates.

Please see attached:

IRAC Interrogatories Information for Question #6

These factors, combined with supply chain challenges for equipment, labour shortages and the need to add service performance requirements and related penalties to the new contracts resulted in the supposition that rates for new contracts would increase significantly. Based on information provided by IWMC's waste management procurement specialist concerning recent new collection contracts being experienced in other regions, the corporation was warned to expect increases in the range of 30 – 40%.

The RFP preparation process was extensive. Because of significant service deficiencies being experienced under the contracts serving East and West Prince regions which had proven difficult to remedy under the existing contract terms, the new contracts would need to address service requirements, penalties and remedies in greater detail. Further, because one of the main service providers had changed, with GFL Environmental taking over Superior Sanitation, it was likely that larger off-island providers would participate in submissions, and it was important that the RFP and related documents and contracts were explicit in the service requirements for the ensuing ten years.

The RFP preparation process took several months and was assisted by the RFP shared by HRM in Nova Scotia, modified as appropriate for PEI's program and service requirements. The draft documents were then reviewed by PEI government procurement officials and by IWMC's external legal counsel.

The estimated magnitude of the contracts in total meant that IWMC required Treasury Board review and approval prior to issuance and Treasury Board was advised that increases in the range of 30-40% were anticipated, and the reasons therefore.

The RFP was circulated on the provincial government website to ensure potential bidders were aware. Submission responses were received from three different proponents (two of which operated within PEI and one other national waste firm). There were six regions to bid on and IWMC was hopeful that by requesting submissions for each region more than one successful proponent might emerge overall.

The submissions were evaluated by an evaluation team that included experienced IWMC personnel and an external waste management procurement specialist to ensure objectivity and industry experience. The evaluation criteria had been pre-set and each evaluator scored each of the submissions separately. Not all regions were bid on by each proponent, and only GFL submitted for all six.

The RFP required that submissions be separated between the technical and price components, and the evaluation process stipulated that only submissions that met the minimum technical requirements would advance to the pricing review stage. Once the evaluations had been completed separately by each evaluator, the results were compared. There was unanimity that GFL Environmental clearly met the technical requirements and had also proposed the lowest price for each of the six regions.

The RFP process was extensive, was overseen by an external consultant, by the provincial government and by IWMC's outside law firm. It was well advertised, and submissions were received from companies already providing service in PEI and from a large national service provider who wished to enter the PEI market. Further, the final contract prices fell within the range that had been anticipated.

IWMC is satisfied the competitive bid RFP process resulted in the best possible rates available to achieve the organics and waste collection services required. For comments on the recycling contract extensions see the response to question #7.

b. Has IWMC reviewed similar contract pricing in neighbouring jurisdictions to ensure reasonableness?

Comparing IWMC Rates to Others

We have not been able to identify any other jurisdiction in Canada that requires a fully-costed and regulatory-reviewed approach to rates charged for waste management. In many areas, the costs for residential waste management are included in the municipal property taxes but not separated out, so that the public is not aware of the component cost for waste management and therefore not in a position to determine whether the service is being provided in a cost-effective manner.

In a number of jurisdictions there are separate charges for waste services on property tax bills, similar to the practice in PEI, however, these are not subject to regulatory review, and we are therefore not able to determine that all of the costs have been included in the establishment of the fee. We cannot be sure that the amount has not been "pulled out of the air" as an arbitrary estimate of what the public will bear, or that it includes the cost of capital assets including interest on capital debt, which are significant component costs. Neither do we know whether the breadth of services offered in other jurisdictions for their fee includes additional services such as extra spring, fall, Christmas tree pickups or free disposal of various items at various disposal sites.

In all jurisdictions there are established disposal rates for commercial waste that cross scales and enter disposal facilities. But similar to the residential rates, we are not able to determine that these rates have resulted from a full calculation of all the underlying costs to provide the services.

Notwithstanding the stated shortcomings in attempting to compare IWMC’s rates to other jurisdictions, it is still a worthwhile exercise. Given that we know IWMC’s rates stem from a comprehensive inclusion of all identified costs, we consider that if other jurisdictions are charging similar or higher rates, then some comfort can be taken that Island ratepayers are receiving fair treatment.

In Atlantic Canada, we have only been able to identify one other jurisdiction, East Hants County in Nova Scotia, that shows a separate charge on the property tax bill for residential waste services to rate payers. It appears that the other jurisdictions simply include the charge in with the overall property tax charge, so the residents are unable to determine their charge for waste services.

Across the rest of Canada, there are a number of municipalities that show separate fees on the property tax bills. While we do not know what services and costs are included in the calculation of the fee, they are presented below for information. IWMC full-costed rates compare favourably to these.

Residential Rates – Year-Round Annual

Comparable <u>Residential</u> Waste Management Rates - Year-round annual						
IWMC	East Hants NS	Lethbridge AB	Surrey BC	Calgary AB	Nanaimo BC *	Toronto ON
\$236	\$220	\$375	\$334	\$308	\$228	\$487
	* no apparent source separation program in this municipality					

Commercial Sector Rates – per Tonne

Rates for the disposal of waste and compostable materials are available for jurisdictions in our neighbouring provinces as follows:

Comparable <u>Commercial</u> Disposal Rates per Tonne								
Material Type	IWMC	Halifax NS	East Hants NS	Valley Waste NS	Pictou Co NS	Yarmouth NS	Fundy Region NB	Toronto ON
Waste	\$122	\$126	\$134	\$135	\$132	\$145	\$135	\$176
Organic	\$122	\$90	\$105	\$105	\$81	\$114	\$50	\$132

Note that other regions have chosen to set separate commercial disposal rates for waste and compostable materials, likely in hopes of encouraging better source separation of organics from waste. While this may make sense in those areas, IWMC has chosen not to do this for the following reasons.

- I. PEI has a mandated source separation waste management program. Businesses must separate their organics from their waste materials, or they will either be rejected at the disposal facility or penalized with a surcharge of \$230 per tonne (minimum charge of \$50).
- II. IWMC operates on a full cost recovery model. The cost of receiving and processing organic materials into harmless and usable compost is equal to or greater than processing waste. Therefore, in a mandated source separation program IWMC considers there is no justification to having a waste disposal fee that is artificially higher in order to subsidize a lower organics disposal fee. As can be seen from the table, all other jurisdictions are charging higher fees for waste disposal than IWMC in order to subsidize and encourage the separation of organics.
- III. The processing of organic waste material into a usable Category A compost requires that contaminants be removed from the material delivered to the compost facility. IWMC considers that offering an artificially lower disposal rate for organics could risk increasing the contaminant level as users seek to avoid a higher waste fee by seeding their organics with materials that should be going to waste.

For all of these reasons, IWMC maintains a policy that the rates should be the same.

7. As noted above, IWMC recycling contracts with GFL are set to expire in June 2025 and IWMC has negotiated a 3-year extension.

- a. **Please explain how the extension was the best course of action to ensure quality service and minimize costs as compared to going out to tender for this service?**

- b. In section 5 of the application, IWMC indicates that a “significant change to the methodology and responsibility for the management and collection of recyclables is occurring across the country and may impact this province.” What significant changes to the methodology and responsibility for the management are expected?**

In order to respond properly to this question, it is appropriate to address part b. first to explain the present environment and the changes occurring in the approach to recyclables management and responsibilities across the country.

When the Waste Watch program commenced more than twenty years ago, one objective was to divert as many items away from the waste stream as there were possible markets for, so that materials could be captured, sorted, marketed, and transported off island for reuse in some form. To accomplish this, materials were generally sorted at source (in home) into two main categories – paper products (blue bag #1) and other materials such as plastics, glass, metals, milk cartons, etc. (blue bag #2). The materials are collected curbside by a private contractor (GFL Environmental) who bears all the costs of collection, sorting, storage, marketing, and transport.

Over time, Extended Producer Responsibility (EPR) programs have increased, where the producer or manufacturer of a product has taken responsibility for the disposal of its products at the end of use. This has occurred with electronics, batteries, paint, and other products. The consumer pays a fee at purchase (often referred to as an “environmental handling fee” or EHF”) and that fee goes into a pool operated by a producer group who manage a program to dispose of/recycle the products in an environmentally responsible way – keeping them from landfill and reusing components, using the EHF received up front at the time of purchase to cover costs.

As more EPR programs have commenced, more items have been removed from the Waste Watch recyclables, waste, or hazardous waste streams and have been captured and handled by EPR programs.

In New Brunswick, there is now an EPR program that handles all printed paper and packaging (which includes everything that is in our present blue bag stream and some items from waste and organics streams). This program is operated by a not-for-profit producer responsibility organization (Circular Materials) that represents manufacturers, brand owners and distributors of thousands of consumer goods and products. Fees imposed on the weight of all packaging and printed paper used to place these goods and products into the marketplace are paid for by manufacturers, brand owners and distributors to Circular Materials whose responsibility it becomes to manage all recycling costs. These fees are embedded in the cost of these products. Nova Scotia will implement a similar program by the end of this year. With factors such as regional pricing models for consumer goods between retailers, the fees required to operate these

programs are already being paid at point of sale by consumers, and that includes island consumers.

PEI Department of Environment, Energy and Climate Action is currently discussing with NB and NS officials how to participate by joining them, since the Island is considered too small for a standalone EPR collection and sorting program to be feasible. However, since PEI consumers are already paying at purchase for such a program, it makes sense for the Island to find a way to participate rather than continue to operate and fund its own program. It is anticipated that such a program could be enacted within three to five years, at which time the component costs of the recycling program under the Waste Watch program household user fee would stop.

An EPR recycling collection program would operate in much the same way as the present recyclables collection program, with curbside collection, but without direct IWMC involvement. The program operators would contract separately with a collection contractor such as GFL Environmental, however it is conceivable that materials would be transported to a mainland sorting facility for processing and marketing to achieve economies of scale.

This is the background that supported the approach to extending the recycling contract rather than tendering the service. The collection and processing of Island-wide recyclables requires a significant investment in trucks, a facility and labour, which only GFL Environmental has available at present. A successful RFP process would require a long-term contract arrangement for a minimum of five years with the normal extensions in order to entice suitable proponents. The prospect of ceasing the current recycling program and moving to a comprehensive private EPR program which could reduce the cost to Islanders and possibly offer more frequent collection precluded IWMC's ability to enter into a long-term recycling contract at this time.

The three-year extension negotiated with GFL Environmental includes a termination clause without penalty in the event an EPR program commences at any time. It also includes an annual extension. The pricing of the contract for the three years continues at the same price as the current contract, adjusted only by reasonable cost of living factors including fuel and wages each year. Having just completed new contracts for the collection of compost and waste which saw significant increases, IWMC considers it a positive accomplishment to have successfully ensured three additional years of recycling collection at no significant cost increase, along with the ability to discontinue at any time without penalty should an alternate EPR program take over.

8. In Section 8.0 – East Prince Landfill Retirement Obligation – IWMC indicated they intend to have a policy in place by March 31, 2025 to address setting aside funds annually to meet this obligation. Will this policy affect the proposed rates? Please explain.

No. The policy, which has not yet been approved by the Board, would set aside a cash reserve to address the future obligation, when it becomes necessary to close and cap the landfill. The cost of doing so is already built into IWMC rates through the Accretion Expense and Amortization of the carrying cost of the Landfill Cells, recognized as part of the company’s Expenditure structure. To date no funds have been set aside and will occur on a prospective basis. A policy should not affect the proposed rates.

9. Section 9.0 – Audited Financial Statements - Please confirm, the Household user fees per the financial statements include the amount charged to customers via the property tax assessments, refunds and adjustments, and the portion of the rate subsidized by the government grant. If this is incorrect, please provide further explanation.

This is correct.

Please provide the calculation to ensure the government subsidy equates to the difference between the approved rates and those charged to customers.

For the calendar year 2023, no application for a rate increase was requested of IRAC. However, the PEI Government continued to hold Household & Commercial User Fees at the approved rates for 2021, despite having been granted approval by IRAC to increase rates for 2022. As a result, for FY2023-24, IWMC required an additional Government subsidy to bridge the difference between the IRAC approved 2022 rates and the 2021 rates that were permitted to be billed to users. On March 1, 2023, IWMC received a grant totaling \$1,210,535 representing the subsidy (based on household counts at that time) to bridge the difference in rates from April 2023 – March 2024. The *Household User Fee portion was \$913,535* and the Commercial Fee portion was \$297,000. These amounts were fully recognized in FY2023-24.

	# of units	Approved Rate	Charged Rate	Subsidy Amount	\$
Year Round	71,800	224.00	213.00	11.00	790,680
Seasonal	7,591	130.00	115.00	15.00	113,865
Extended Seasonal	8,990	150.00	140.00	10.00	8,990
					913,535
Commercial	37125	108.00	100.00	8.00	297,000

10. Section 9.0 – Audited Financial Statements - Order WM24-01 approved a 1% net asset balance contribution included in the rates, please provide a description of how this amount is accounted for in IWMC’s financial records.

It forms part of the total fee and is included in Household User Fee and Disposal Fee revenue.

Though the Commission approved a 1% net asset contribution, the net asset balance has continued to decline. Please explain why this has not resulted in the anticipated increase to the net asset balance as a means to allow IWMC sufficient working capital to address the uncertainties and irregularities of business and be well positioned to address other items.

The cost allocation model forecasts future costs and then calculates the rate required to cover those costs by dividing the anticipated costs by the number of units (household numbers or tonnes). The variables include the amount of actual costs incurred and also the actual units serviced or handled.

The calculated fee required to theoretically cover costs and breakeven has been allowed a 1% increase in past Orders to offer a slight increase in net assets. This increase equates to 1% of rate revenues which were \$22.894 million for FY 2023-24, or \$228,940. In a perfect world where actual costs and unit numbers turned out exactly as forecast, the corporation would have had an excess of revenues over expenditures of \$228,940, and that amount would have increased the starting net asset balance of 1,670,180 to \$1,899,120 at the year end.

Unfortunately, the actual results showed an excess of expenditures over revenues by \$431,074 and the net asset balance therefore declined by that amount, primarily due to inflationary pressures on costs. Had the rates not included the 1% allowance, the net results would have been worse by \$228,940 and the net asset balance would have ended up at approximately \$1 million.

11. Section 9.0 – Audited Financial Statements - IWMC has recorded an increase in cash and cash equivalents on their March 31, 2024 financial statements. What would IWMC consider a healthy cash and cash equivalents balance to properly manage the organization? Provide justification for the amount identified.

As both revenues and expenditures are relatively level month over month, IWMC would consider approximately three months of operating expenses available as a reasonable cash reserve to cover unexpected situations. IWMC had indicated in our IRAC application a year ago (Section

9.0) this would be sufficient to maintain operations and provide flexibility to manage cash flow and facilitate one-time expenses. That would equate to approximately \$5-6 million.

(<https://corporatefinanceinstitute.com/resources/knowledge/finance/cash-reserves/>; <https://quickbooks.intuit.com/ca/resources/cash-flow/why-you-need-a-business-cash-reserve/>; Developing your Reserve Fund Policy A Template and Guide for Nonprofits, FMA Institute, <https://fmaonline.net/npgreserves/>).

12. Section 9.0 – Audited Financial Statements - IWMC’s Consolidated Statement of Cash Flows indicates IWMC has purchased property and equipment of \$1,834,800, as well as made repayments of long-term debt of \$1,867,345. There was also no additional long-term debt acquired during the 2024 year. This represents a significant use of cash resources during the year.

a. Please explain why IWMC considers it appropriate to use operating funds to purchase capital assets versus financing large capital purchases.

The actual amount of operating funds used by IWMC for capital purposes, not including Environmental Industrial Services Inc. (EISI) which is included in the consolidated financial statements but not part of the regulated entity, would be calculated as follows:

	Consolidated	EISI Portion	IWMC
Capital Payments Out			
Capital assets (Note 4 F/S)	1,834,800	502,773	1,332,027
Long-term Debt reduction (Note 6 F/S)	1,867,345	50,508	1,816,837
	<u>3,702,145</u>	<u>553,281</u>	<u>3,148,864</u>
Capital Funding In*			
Amortization of capital assets (Note 4 F/S)	<u>2,486,838</u>	<u>162,627</u>	<u>2,324,211</u>
Net Capital Cash Out	<u>1,215,307</u>	<u>390,654</u>	<u>824,653</u>

*Amortization is a capital expense that is funded by inclusion in rate revenue to fund capital purchases over time. In last year’s application, the estimated amount of \$2,639,200 (Section 8.0, Figure 6) was included in the expenses to justify the rates. The portion of rate revenue relating to the amortization of capital assets is allowed in order to recover the cost of capital assets over

an appropriate economic life that the asset is used. Accordingly, that portion of the rate revenue is a legitimate contribution to fund capital payments, and not part of operating funds.

No additional debt was taken on in FY2023-24 due to the unusually higher than normal interest rates being experienced. It was necessary to fund FY2023-24 asset purchases with working capital so as not to end up in a situation with long-term debt locked in at high rates. The company anticipated that rates would decline, which has happened, however for FY2023-24 the decision was made to use existing working capital to fund capital requirements, in light of the available cash and the fact that the additional amount required was only in the range of \$800,000.

b. Please explain how the current practice meets the goal of intergenerational equity.

It is IWMC's intention to resume financing various capital purchases with long-term financing, now that interest rates have declined. Avoiding unusually high long-term interest rates is beneficial to all customers now and in the future.

13. Section 9.0– Audited Financial Statements - Note 11 to the audited financial statements reference a Commitment with PEI Energy Systems for waste processing dated August 8, 1995. This was a 30-year commitment expiring in August 2025.

a. Has there been a new agreement between IWMC and PEI Energy system for waste processing? If so, please provide a copy of the agreement.

The existing 30-year contract between Enwave and IWMC was automatically extended under existing terms and, as per a contract clause, for an additional five years, from August 2025 to August 2030.

b. In the absence of a new agreement, how will this affect IWMC's forecast and proposed rates?

The extension should not have any significant effect on rates.

14. Section 9.0 - Audited Financial Statements - There have been a number of expenditures vary as compared to the prior year. Please provide some comments and details related to the following expenditure variances:

a. Administration wages have increased approximately \$200,000;

Administration Salaries & Benefits increased \$172,540 (+12.9%) over the prior fiscal year. 2.25% relates to wage increases over the FY2023-24 fiscal year. Two new positions for an HR Manager

and Finance Manager were added during the fiscal year, accounting for 5.5%. Workers Compensation cost increases accounted for 3.1%. Pension & higher CPP contribution rates accounted for 1.8%.

b. Various repairs and maintenance accounts have increased significantly; and

Aging assets have resulted in higher repairs being required, coupled with high inflation and labour shortages with repair facilities. Specifically, the Central Compost Facility required a full repair of its existing concrete container pads. These repairs began in late FY2022-23 and continued throughout FY2023-24. Virtually all of the CCF Repairs increase can be attributed to this work.

c. Motor vehicle expenditures increased.

As well, IWMC has an aging fleet of 3 roll-off trucks. These are expensive, heavy duty trucks that require expensive repairs as they age. This accounts for the \$193,298 increase in repair costs for these vehicles. IWMC has just replaced (in Q4-FY2025) two of the three, a 2015 and 2018 pair of Mack trucks.

15. Section 9.0 – Audited Financial Statements- Have there been any significant changes to wages such as new agreements, new positions, etc? If so, please provide details.

As stated in Question #14. a), IWMC had applied 2.25% in wage increases, as there was a new Collective Agreement signed in March 2023 by the Province of PEI and IWMC follows their wage rate tables. An HR Manager position was added in FY2023-24 as the company previously had no HR professional on staff. A Finance Manager position was added as well, as the Finance/Payroll department was deemed to be understaffed with just two positions previously.

16. Section 10.0 – Projected Statement of Operations 2024-25 - Please explain why the net income per Section 10's Project statement of operations for the year ended March 31, 2025 is different from the Projected March 31, 2025 forecast Excess Expenditures over Revenues in the Cost allocation analysis. Include detailed explanations for variances.

The Projected Statement of Operations in Section 10 was copied from the correct electronic file used and linked to the Projected March 31, 2025 forecast in the Cost Allocation Analysis file. They are in balance but it appears something happened when copied and pasted to the PDF/Print version of this application that changed figures in the "Projection March 31, 2025" column. Attaching the correct version with these responses. There are actually no variances.

Please see attached:

IWMC Proj Stmt of Operations 2024-25

17. Section 10.0 – Projected Statement of Operations 2024-25 - The residential household user fee does not tie with the revenue calculated on page 30 of the application - Household revenue. Please explain the variance.

The schedule on Page 30 was representative of Household Counts and their related revenue. The full schedule is included in the electronic version of the Cost Allocation Analysis (Excel version sent separately) as the last tab in the file “Household Counts” and includes a reconciliation at the bottom right column (Cell Q45) showing its agreement with the Household User Fees on the summary tab “March 31, 2025”. This bottom portion wasn’t copied over to Page 30 in the printed document.

18. Section 10.0 – Projected Statement of Operations 2024-25 - The residential household user fee does not tie to the revenue calculated on page 31 – the Cost Allocation Analysis 2024-25. Please explain the variance.

The Household User Fee revenue on Page 31 (\$18,638,658) is a combination of the Household User Fees – Taxation + Billed by IWMC amounts on Page 25 which total to \$18,638,658.

19. Section 10.0 – Projected Statement of Operations 2024-25 - Disposal revenues projection for March 31, 2025 is approximately \$700,000 dollars higher than the budget. Please explain this variance.

East Prince Waste Management Facility volumes were 15% higher than budget and formed the bulk of the variance (\$574k). Other Waste Watch sites were also seeing increased volumes.

20. Section 12.0 – Net Asset Balance - IWMC has indicated they have been experiencing expensive repairs and capital expenditures to replace failing and aged assets. IWMC also indicated these high costs are expected to continue through 2024-25 and beyond.

- a. **Provide a summary of the repairs and capital expenditures experienced in the current year, as well as forecasted in the cost allocation model.**

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DISPOSAL REPAIRS	Dec 31/24 YTD Actual	Mar 31/25 FY Forecast	
<u>East Prince Waste Management Facility</u>			
Repairs and maintenance	197,994	208,600	Majority re aging BOMAG Compactor heavy equip
<u>Queen's County Regional Landfill</u>			
Repairs and maintenance	-	2,300	
<u>Energy from Waste</u>			
Repairs and maintenance - scale	4,188	4,700	
<u>Central Composting Facility</u>			
Repairs and maintenance	521,426	712,000	Majority rehabilitation of concrete container pads
<u>Waste Watch Drop-off Centers</u>			
Repairs and maintenance	319,107	358,000	
<u>Transportation of Material</u>			
Motor vehicle	257,524	230,456	Aging roll-off trucks (3) (includes fuel costs)
	\$ 1,300,239	\$ 1,516,056	<i>Expect to be under CCF f'cast to offset Vehicles</i>

Capital Project Update	Dec 31/24 YTD Actual	Mar 31/25 FY Forecast	
VEHICLES	123,589	673,590	2 Mack trucks + 2 - 1/2 ton trucks
COMPOST & WASTE CARTS	343,688	700,000	
CENTRAL COMPOST FACILITY (CCF)	1,275,985	1,601,294	Shear Shredder, Aeration Trenches, Roll-up Doors, Stationary Screener
WASTE WATCH DROP OFF CENTERS	332,858	889,400	3 Site Skidsteers, New London Site Paving
EAST PRINCE WASTE MANAGEMENT FACILITY	734,720	1,007,463	Scales, Skidsteer, 1/2 ton truck, Utility Vehicle, Site Paving
HEAD OFFICE - 110 WATTS AVE (CHTOWN)	17,730	92,195	Office Renos/Furniture for additional offices
TOTAL	2,828,570	4,963,942	

b. Are there any expenditures expected but not included in the cost allocation model?

No.

c. What measures has IWMC undertaken to minimize the high repair costs and strategically plan future capital expenditures?

IWMC has established a 5-year Capital Budgeting Plan to address the need for a multi-year Equipment/Facility replacement and upgrade strategy. This plan provides an approach that allows for predictable and relatively balanced annual expenditures. It also provides a replacement strategy to deal with aging equipment and mitigate high repair costs.

21. Section 12.0 – Net Asset Balance - On Table 3 Cash Flow for 5 Years 2020 to 2024 – The table indicates there have been significant capital purchases over the last 2 years (approximately \$2.8 million), but there have been no increases in long term debt to finance the capital purchases.

a. How were these expenditures purchased?

A combination of Cash on Hand and a short-term Operating Loan, originally financed for \$2 million, were used to fund these expenditures.

- b. If cash on hand from operations was used to purchase these capital assets, why did IWMC determine it was appropriate to use cash on hand for significant capital purchases?**

See response to Question #12. a).

- 22. Section 12.0 – Net Asset Balance – IWMC has indicated “For the most part, capital debt has been used to finance long-term assets.” However, based on Table 3 – Cash Flow for 5 years 2020-2024, this is not the case. Over the 5-year period IWMC has purchased \$4.959 million in capital assets but only acquired \$252,000 of debt. Please explain.**

Over the company’s history, capital debt, and on occasion short term debt, had been used to finance long-term assets. At times, external events required a modified approach.

- 23. Section 12.0 – Net Asset Balance (NAB) – Assuming the rates proposed by IWMC are approved, what are the forecast contributions to the NAB in 2025/2026 and in 2026/2027, and what is the forecast net asset balance as of March 31, 2025?**

Forecasted NAB - March 31, 2025	\$1,321,195
Excess Revenues for FY2025-26	\$ 50
(This includes a contribution of 1% of the first three revenue lines totaling \$274,500)	_____
Forecasted NAB – March 31, 2026	\$1,321,244
Excess Expenditure for FY2026-27	\$ (807,009)
(This includes a contribution of 1% of the first three revenue lines totaling \$280,000)	_____
Forecasted NAB – March 31, 2027	\$ 514,235

- 24. Section 13.0 – Projected Statements of Operations 2025-26 and 2026-27 – Based on these projections, can IWMC confirm if the proposed rates are approved, the rates would generate sufficient revenues to meet the projected expenditures for the next 2 fiscal years.**

The rate should be sufficient to generate enough revenue to cover expenditures through FY2025-26. At this time, we are forecasting a deficit in two years re FY2026-27 but IWMC will do its best to control expenditures to avoid that situation. Any increase in volumes that may occur vs what is forecasted may also help to reduce any forecasted deficit.

25. Section 13.0 – Projected Statement of Operations 2025-26 and 2026-27 - Given that IWMC has requested a rate increase for 4 of the last 5 years, has IWMC considered preparing a multi year application?

IWMC has not yet considered a multi-year application, as the expiration of the 5-year collection contracts, coupled with the unusual period of high inflation, made annual cost predictability difficult. Longer term reliable projections are difficult given uncertainties in the current market, however IWMC is willing to consider whether this would enhance the rate application process, given we now have better predictability with our collection costs and high inflation seems to have abated for now.

26. Section 15.0 - IWMC has indicated they have developed and approved a Capital plan.

- a. Please provide a copy of IWMC’s capital plan, including how IWMC intends to finance the capital purchases.**

Please see attached:

IWMC - Fall 2024 - _IWMC 5-year Capital Budget

IWMC intends to finance larger valued, tangible items that would provide collateral for financing. In most instances, this would be financed through Treasury with the PEI Government.

- b. Has the purchase of capital assets, depreciation of purchased assets and possible financing costs from the capital plan been included in the Cost allocation model forecast? If not, please explain why this was not considered. If so, please provide details of planned capital purchases, depreciation and financing costs.**

Yes. The forecasted Capital items for FY2024-25 (\$4,963,942) have been included as Depreciation for 1 year and using the ½ year rule for additions (\$496,394). Financing costs have not been included in the FY2024-25 Forecast as financing for the 2 Mack truck purchases are only being financed in the final quarter of the fiscal year. These financing costs were included in the FY2025-26 and FY2026-27 projected Statements of Operations.

27. Section 15.0 – IWMC indicated they have developed a 3-year IT modernization plan. Has this plan been included as part of the recently approved Capital plan?

Yes.

- a. **If not, please provide a copy of the IT plan including how IWMC intends to finance the IT Modernization plan.**
- b. **Have the expenditures related to the IT Modernization plan (both operating and capital) been included in the Cost Allocation Model? If not, please explain why this was not considered. If so, please provide details of planned expenditures, depreciation and financing costs.**

Yes. The only portion of the IT plan that is scheduled for FY2024-25 and therefore included in the FY2024-25 Cost Allocation Model, is the purchase of 2 laptops for 2 new employees. Depreciation costs for 1 year and using the ½ year rule for additions has been included.

28. In its 2024 Rate Application, IWMC forecast the excess revenues over expenditures in FY2025/2026 to be (\$40,200) if the proposed rates and 1% net asset balance were approved.¹ The proposed rates and 1% net asset balance were approved by the Commission.² However, IWMC is now forecasting the excess revenues over expenditures in FY 2025/2026 to be (\$2,035,450).³ Please explain the reason(s) for the variance. Include all supporting calculations and assumptions.

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Projected Statement of Operations for Years Ending March 31, 2026

Island Waste Management Corporation (Proposed Rates + 1% NAB)

	2024 Appl FY2025-26	2025 Appl FY2025-26	Variance	
	Projected	Projected		
REVENUE				
Household user fees				
Taxation	\$ 18,959,200	\$ 18,908,100	\$ (51,100)	Updated volume assumptions (eg Prev Yr Round - 76,999 vs Curr Yr Round - 76,453)
Billed by IWMC, refunds & misc	243,600	185,000	\$ (58,600)	Updated volume assumptions (eg Prev Yr Round - 76,999 vs Curr Yr Round - 76,453)
Disposal fees	6,100,000	6,319,000	\$ 219,000	Updated volume assumptions - still expect flat growth in FY26 but starting point is higher
Decommissioning and monitoring	25,500	25,500	\$ -	
Other	400,000	400,000	\$ -	
	25,728,300	25,837,600	\$ 109,300	
EXPENDITURES				
Administration				
Charlottetown (Head office)	1,540,600	1,667,300	\$ 126,700	\$95k added Business Analyst w Ben; +\$18k Line of Credit Interest; \$14k Job Reclasse extra costs
Customer Service	541,400	668,100	\$ 126,700	\$31k WW Client sw upgr; \$63k new CSR position w Ben; \$20k Job Reclasse costs; +\$10k Rent/Train
Disposal Fee Program	191,100	195,600	\$ 4,500	Job Reclasse extra costs
Advertising, education and PR	190,500	256,000	\$ 65,500	Additional Outreach Costs accounted for, additional work to maintain IWMC website
Operating costs				
Residential collection	10,306,500	10,946,400	\$ 639,900	\$105k household count adj, \$43k new driver, \$140k adj new Collection costs
Disposal				\$352k addit'l Recycle Collection Housing/Fuel Annual adj + higher ongoing H&F Accrual
EPWMF	1,648,800	1,996,100	\$ 347,300	+5% vol incr-\$82k; +\$105k Accretion exp; \$56k Mat/Labour Cover Contaminated Soil; \$100k BOMAG/other repair
PEI Energy Systems	2,809,800	2,866,000	\$ 56,200	Addit'l Emissions Testing & Fly Ash Disposal costs
Central Compost Facility	3,008,400	3,225,200	\$ 216,800	\$147k higher Composting Contract costs; \$70k higher aging Facility Repairs
WWDC's	1,602,600	1,915,200	\$ 312,600	\$100k New London Asphalt rep; \$100k Dingwells Mills concrete pads; +\$54k Site HHW Disposal; +\$60k other Reps
Transportation of Materials	355,400	415,300	\$ 59,900	Higher vehicle repairs
Queen's Landfill	4,400	4,300	\$ (100)	
Mattresses	408,000	400,000	\$ (8,000)	Adjusted for current run rate
Decommissioning and monitoring	25,500	25,500	\$ -	
	22,633,000	24,581,000	1,948,000	
Earnings before dep'n and interest	3,095,300	1,256,600	(1,838,700)	
Depreciation and amortization	2,800,000	2,899,850	\$ 99,850	Increases for Capital Budget items
Interest on long-term debt	335,500	392,200	\$ 56,700	Increases for Capital Budget items
Excess of Revenues over Exps	\$ (40,200)	\$ (2,035,450)	\$ (1,995,250)	

ATTACHMENTS:

1. CPI Bank of Canada IRAC Interrogatories Question #3
2. IRAC Interrogatories Information for Question #6
3. IWMC Proj Stmt of Operations 2024-25
4. IWMC - Fall 2024 - IWMC 5-year Capital Budget