



TO: Cheryl Mosher, Senior Financial Advisor, Island Regulatory and Appeals Commission
FROM: Karen MacDonald, Chief Executive Officer
DATE: February 12, 2024
RE: Response to Interrogatories on Application WM01307

1. In the application, IWMC states that in May 2023, it issued detailed requests for proposal (RFPs) for residential cart collections for all six regions.

a. How many responses did IWMC receive to the RFPs?

Region	Number of Proposals
Capital	3
Central	2
West Prince	1
East Prince	3
Eastern Kings	1
Southern Kings	1

2. Section 3.0 – Revenue – With respect to Other Revenue, IWMC states that it receives miscellaneous revenues from various sources, including various stewardship programs.

a. IWMC states that it has an agreement with various stewardship organizations to collect, manage and dispose of certain materials for a fee. Please explain how the stewardship programs work.

The *Environmental Protection Act, Materials Stewardship and Recycling Regulations* directs the operation of stewardship programs in Prince Edward Island.

https://www.princeedwardisland.ca/sites/default/files/legislation/e09-10-environmental_protection_act_materials_stewardship_and_recycling_regulations.pdf

Organizations representing manufacturers, producers, etc. for designated materials (e.g., batteries, electronics, paint, stains and empty containers, light bulbs, prescription medications and sharps, agricultural plastics and automotive fluids, filters, and containers) apply to the Government of PEI to be the stewards for their products and materials.

IWMC's Waste Watch Drop-Off Centers are "one-stop" facilities for disposing of wastes, therefore, the stewardship organizations request IWMC to be drop-off locations for their material types. The stewardship organizations and IWMC sign agreements for this. Included in the agreements are the fees the stewardship organizations will pay to IWMC to receive the designated material types and prepare them for shipping (e.g., pack them in drums, boxes, tote bags or pack and stretch wrap them on a pallet) to be collected and shipped to processors.

b. Are the fees paid to IWMC by the stewardship organizations tied to the recycling/disposal fees paid by customers when purchasing certain products (i.e., electronics, batteries, etc.)? Are the recycling/disposal fees paid by customers at point-of-sale ultimately paid to IWMC to cover the cost of recycling or disposing of these products? Please explain.

Stewardship organizations receive the fees collected for the stewardship materials paid by the customers at a retail location. This revenue does not come to IWMC, it goes to the stewardship organization. Stewardship organizations pay IWMC a contracted amount to receive and prepare the materials for shipping.

c. Do the stewardship programs operate at a breakeven for IWMC?

IWMC (and the ratepayers) benefit from stewardship programs when it comes to waste disposal. In the absence of a stewardship program for a material, it would come to IWMC, either in the black cart/waste container, or dropped off at a WWDC in the case of household hazardous waste (e.g., batteries and paint). The cost of disposal for this material, in the absence of a stewardship program, is borne by IWMC, and therefore included in the residential household fee paid by the ratepayer or the disposal fees.

When a material is included in a stewardship program and IWMC receives a fee for receiving and preparing it for shipping, IWMC is no longer responsible for the cost of disposal. In the case of household hazardous waste items, in particular, the savings of disposal costs are significant, and these are passed on to the ratepayers through the cost allocation process. The rate payers still pay for the disposal, but at the retail purchase stage rather than at the disposal stage. The stewardship organization is responsible for the overall proper disposal. IWMC participates in a

portion of this process, receiving and shipping preparation, for which it is compensated. Since IWMC already operates the WWDCs, there are no significant incremental costs to providing a service to the stewardship organization other than nominal labour. The stewardship organization covers the direct packing and shipping costs. The increase in stewardship programs provides net savings to IWMC and therefore its customers.

3. With respect to tire recycling, IWMC indicated prior to the 2020-2021 FY, IWMC was responsible to manage and dispose of used tires in the province; however, IWMC is no longer responsible for the disposal of tires.

a. Can individuals still drop off tires at the various drop off locations? Yes
If so, are there any costs incurred by IWMC for this service? No

b. If tires are still eligible for drop off at various waste watch drop off locations, what is the process to recycle the tires and who is responsible to do so?

The tires can be dropped off at the WWDCs. They are free of charge unless they are still on a rim. If they are on a rim, we charge \$3 each to cover our cost of hiring a contractor to remove the tires from the rims.

The Province of PEI has a contract with O'Brien's Recycling to collect and process the tires on PEI. O'Brien's Recycling comes to our WWDCs on a regular basis to collect the tires.

c. Are there any costs incurred by IWMC associated with the tire drop offs, storage and eventual pick up from a third party?

No, other than removing the rims from the tires as described above.

4. Section 5.0 – East Prince Landfill Obligation – As part of the 2022 Rate Application (Docket WM01306) IWMC advised that it had theoretically recovered \$2,446,180 from ratepayers over the years, which represents the amount that should have been set aside to fund the future retirement obligation of the East Prince Landfill. As part of the 2022 Rate Application, IWMC stated that it “intends to commence setting this annual amount aside going forward, but has not settled on a plan to fund the past amount of \$2,446,180 recognizing that those funds had previously been used to fund other things.”

In the 2024 Rate Application, IWMC advises that the amount theoretically recovered from ratepayers has increased from \$2,446,180 to \$3,129,164. IWMC again states that it “intends to commence setting this annual amount aside going forward” but that there is nothing included in the proposed rates to set up a fund in respect of this amortized amount to date.

a. How does IWMC intend to fund the \$3,129,164 that has been theoretically recovered from ratepayers for amortization of the East Prince Landfill?

The \$3,129,164 that has been included in expenses over the years and collected from the ratepayers as part of the fees has been used (theoretically) to fund capital items. These items would include purchases of property and equipment that were funded from cash flow rather than financed through debt, and amounts used to help pay down long-term debt. These funds are gone and to replace them IWMC would need to borrow the funds against existing capital assets and put those funds into a restricted fund set aside, to be used when the landfill is retired. Since the future obligation is based on several estimates and the final cost will not be known for many years, IWMC is doubtful that borrowing funds and incurring additional costs now and into the future (interest and principal) makes sense.

IWMC plans to review with its Board of Directors the feasibility of establishing a cash reserve.

b. Please explain if IWMC intends to recover additional costs from ratepayers to put into a fund, or if IWMC intends to set aside cash from the net asset balance from current rates into a fund.

Beginning in the 2024-2025 fiscal year IWMC will look to place funds into a restricted account that will accumulate each year, based on the amount of change in the calculated amount “theoretically” funded by the ratepayer which forms part of our expense each year. This amount is only known at year end, as part of the audit process, and will not be an exact funding of the theoretical amount funded by the ratepayer, but it will be close, and over the years will build to a substantial amount to help offset the retirement obligation. This plan is not yet fully developed and requires Board approval, but is being worked on, with an expected implementation date prior to December 31, 2024.

5. Section 6.0 – Audited Financial Statements 2022-23 –What happens with the recycling products collected?

a. Do the recycling products generate any revenue for IWMC?

There is no direct revenue to IWMC for recycling materials.

The business of marketing recyclables is speculative, challenging, and risky. There are ready markets for paper, cardboard, and metals, however identifying markets for plastics can be difficult, depending on their composition. In PEI we accept plastics number 1 to 5 for recycling. Those that are soft (e.g., plastic bread bags) and/or coloured (e.g., black, grey, etc.) can be undesirable. Given the significant challenges and risks, the residential recyclables collection contracts are bid by contractors on the basis that they will be responsible for the collection, storage, and marketing of the materials, and will benefit from the revenues received for this portion of the work. This shifts the direct costs and the risks associated with this end of the recycling business to the contractor and away from IWMC and, more specifically, from its ratepayers.

The contractors, in our case GFL, have extensive experience in the processing, storage and marketing of these materials, drawing on experience from other jurisdictions. If IWMC was to undertake this end of the recycling process, the overall cost to the ratepayer would likely increase, not decrease, since IWMC has no particular expertise in the marketing of recyclables, and its volume would be small compared to that of a significant contractor like GFL which operates in much larger markets. The contractor, when bidding on the contract, has already considered the processing, storage, and marketing costs, and offset it with the revenues anticipated for the materials when they are shipped off-island. IWMC considers a competitive bid process to be the safest and most cost-effective approach to the recycling collection work. The risks and direct costs have been assumed by the contractor. If IWMC were to structure its contracts in a manner that it paid for the collection and then received offsetting revenues from the contractor for the value of the materials collected, there is no reason to think it would not net out to the same cost. The collection contractor is not receiving a windfall from the marketing revenue from the recyclable materials, it has already gone through the cost and revenue calculation and factored it into its bid price.

6. Section 9.0 - Net Asset Balance (NAB) – IWMC states that costs would be lower if the organization was able to self finance lower dollar capital items rather than financing them. Please provide IWMC's analysis in support of this position.

By depending on vehicles such as an Operating Line of Credit to fund lower dollar capital items, vs self-financing through a NAB, the increased Interest expense associated with it would end up becoming part of the cost to the User, as it would be included in the calculation through our Cost Allocation methodology in the determination of a User Rate. In times of higher interest rates, this is particularly costly. As an example, IWMC recently paid quarterly interest on its Line of

Credit for the quarter ending December 31, 2023, at a rate of 5.39%, and equipment financing rates can run 7%-10% or more.

7. Section 9.0 - Net Asset Balance (NAB) – In the last rate application, IWMC indicated they would develop a policy to present a clearer picture of how corporate resources may be employed. IWMC has again presented this statement in the 2024 rate application. What is the current status of this policy?

In the past year IWMC's already thin human resources were stretched further by unforeseen staff exits. The effort and time to properly manage a very comprehensive RFP process for the collection of residential waste carts was considerable and consuming. The corporation intends in the coming year to focus its attention on the development of proper policies regarding the effective use of resources between capital and operations, which includes a more robust net asset balance policy. In the meantime, it feels that the continued provision for a targeted increase in its net asset balance funded through a 1% addition to rates is reasonable and warranted.

8. Section 9.0 - Net Asset Balance (NAB) – IWMC indicated the Net Asset Balance at the end of 2023 is approximately 14% of net assets and the goal is 20% of net assets. It appears IWMC has made considerable headway in achieving their goal over the last two years. Has IWMC considered alternatives, such as a change in the percentage? If yes, what alternatives were considered and why were they not selected?

Please see the amended Section 9, Net Asset Balance submitted to IRAC on January 31, 2024. The Net Asset Balance at March 31, 2023 was \$1.670 and represents only 5.7% of our asset base.

At this time, IWMC has not contemplated a change in percent.

9. Section 9.0 – Net Asset Balance (NAB) – In Order WM22-01, the Commission did not approve IWMC's request to establish a net asset balance of \$5.5 million. However, the Commission has recognized that it is reasonable and prudent for IWMC to have a net asset balance on hand to deal with unforeseen financial situations. As part of the 2022 Rate Application, the Commission approved a 1 percent contribution to the net asset balance with rates remaining in effect until December 31, 2024 or until such time as IWMC sought approval of new rates.

- a. As part of the 2022 Rate Application, IWMC forecast a contribution of \$357,000 to the NAB in 2022/2023 and a contribution of \$249,000 in 2023/2024. What were the actual contributions to the NAB in each of these years? Please explain any variance between forecast and actuals.**

The actual contribution for 2022-2023 was \$342,088, within 4% of the Forecast (see audited financial statements). The amount for 2023-2024 is currently forecasted to be \$67,400. This is lower than the original Forecast due mainly to the increase in the valuation of the Landfill Asset Retirement cost and higher WWDC equipment repairs, due to the continued aging of its assets.

b. The net asset balance was \$4.381 million as of March 31, 2023. What is the current value of the net asset balance?

As per the amendment Section 9 – Net Asset Balance, the Net Asset Balance at March 31, 2023 was \$1.670M. The current balance (at December 31, 2023 per our internal financial statements) is \$1.388M.

c. As the net asset balance was \$4.381 million as of March 31, 2023, please provide justification to continue contributing to the NAB.

As per the amended submission, the Net Asset Balance at March 31, 2023, was \$1.67 million, representing only 5.7% of the asset base. The rationale to continue contributing to a NAB is still valid at this time.

d. Assuming the rates proposed by IWMC are approved, what are the forecast contributions to the NAB in 2024/2025 and in 2025/2026, and what is the forecast net asset balance as of March 31, 2025?

Per Question #10 and #11 Projected Statements, the contributions to the NAB in 2024-2025 would be \$258,300 and in 2025-2026 would be \$261,400.

10. Section 10.0 – Projected Statements of Operations 2024-25 and 2025-26 – Please provide a projected statement of operations and a projected statement of net assets assuming the requested rates are approved.

Please see attached:

Projected Statements of Operations 2024-25 and 2025-26 (1% NAB)

IWMC Financial Position FY2025 & FY2026 Table 1

11. Section 10.0 – Projected Statements of Operations 2024-25 and 2025-26 – Please provide a projected statement of operations and a projected statement of net assets assuming the requested rates are approved without the 1 percent Net Asset Balance.

Please see attached:

Projected Statements of Operations 2024-25 and 2025-26 (No NAB)

IWMC Financial Position FY2025 & FY2026 Table 1

12. Section 11.0 – Government Subsidies – Please confirm that IWMC received the government grant and identify where it is included in the 2022 and 2023 financial statements.

The Government grant was received in March 2022 and March 2023 and recognized monthly as Revenue, in Household User Fees, through the year. It is identified as Contract Liability under Current Assets (Note 5).

a. In IWMC’s Consolidated Statement of Cash Flows for the 2022 year, please explain what the Government Assistance received line item refers to.

This is related to our wholly owned Subsidiary, Environmental Industrial Services Inc (EISI). These audited statements are a consolidated version of IWMC and EISI. This government assistance is not represented in any IWMC Rate calculations as EISI is funded and operated independently.

ATTACHMENTS:

1. Projected Statements of Operations 2024-25 and 2025-26 (1% NAB)
2. Projected Statements of Operations 2024-25 and 2025-26 (No NAB)
3. IWMC Financial Position FY2025 & FY2026 Table 1