



Docket: WM01306
Order: WM22-01
Date: February 24, 2022

IN THE MATTER of an application by the Island Waste Management Corporation for approval to vary the rates for waste management services, in accordance with section 18.1 of the *Environmental Protection Act*, RSPEI 1988, Cap. E-9.

Order

Panel Members:

J. Scott MacKenzie, Chair
M. Douglas Clow, Vice-Chair
Erin T. Mitchell, Commissioner

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Cheryl Mosher,
Senior Financial Officer
Prince Edward Island Regulatory & Appeals
Commission

BACKGROUND:

1. In December 2021, the Island Waste Management Corporation (“IWMC” or the “corporation”) filed an application with the Island Regulatory and Appeals Commission (the “Commission”) seeking to increase the annual waste management fee for households, seasonal and extended seasonal residences, and to increase the commercial disposal fee and the Waste Watch Drop-Off Centre fee per tonne (the “Application”).
2. The rates proposed in the Application are based primarily on the cost allocation analysis that was prepared by IWMC in October 2021, and approved by the Commission in November 2021 (see Commission Order WM21-03).
3. The cost allocation analysis determined that the annual fees for households, seasonal and extended seasonal residences, and the commercial disposal fees, are not sufficient to cover the cost of providing waste management services to these customers. According to the results of the cost allocation analysis (summarized below), these customers are paying between 3.8 percent and 11.3 percent less than the cost of providing service:

	RESIDENTIAL			COMMERCIAL
	Year Round	Seasonal	Ext-Seasonal	Tonnes
Calculated Cost	\$221.09	\$127.95	\$147.86	\$106.10
Current Approved Fees (2021)	\$213.00	\$115.00	\$140.00	\$100.00
Variance (\$)	(\$8.09)	(\$12.95)	(\$7.86)	(\$6.10)
Variance (%)	-3.8%	-11.3%	-5.6%	-6.1%

Figure 1: Cost Allocation Analysis 2021-22

4. According to IWMC, the results of the cost allocation analysis suggest that an increase in rates is needed to avoid an operating loss and to recover IWMC’s cost of providing service.
5. In addition to the recovery of costs, IWMC is also seeking Commission approval to earn a return of 1 percent. According to IWMC, the return will allow the corporation to build a net asset balance and is required to provide a stable operating environment going forward.
6. IWMC is seeking Commission approval for the following rate increases:

	Approved Rates 2020-2021	Cost per Unit based on 2021-22 Cost Allocation Analysis	Plus 1% Net Asset Balance Contribution	Variance to 2020-2021 Rates	Proposed Rate Increase 2022-23	Proposed Rates* 2022
Year Round	213.00	221.09	223.31	(10.31)	11.00	\$224.00
Seasonal	115.00	127.95	129.23	(14.23)	15.00	\$130.00
Extended Seasonal	140.00	147.86	149.43	(9.34)	10.00	\$150.00
Commercial	100.00	106.10	107.17	(7.17)	8.00	\$108.00

*Rounded up

7. IWMC has requested that the new commercial disposal fees come into effect on April 1, 2022. The residential rates are proposed to come into effect on January 1, 2022, to be included on residential property tax bills issued in the spring of 2022.
8. In accordance with section 18.1(2) of the *Environmental Protection Act* (the "Act"), IWMC is required to submit any proposed changes to its rates to the Commission for review and approval. Upon review of the Application, the Commission has the discretion to approve the rates proposed by IWMC, to determine and fix new rates, or to refuse the rates proposed by IWMC and confirm the existing rates (section 18.1(4)).
9. Upon receipt of the Application, the Commission published the notice of the Application on its website and in local newspapers. Any person wishing to comment on the Application was invited to do so in writing, in accordance with section 18.1(3)(a) of the *Act*.
10. The Commission received eight (8) submissions from members of the public.
11. On February 2, 2022, the Commission issued interrogatories to IWMC seeking additional information with respect to the Application and the proposed rates. IWMC filed responses to the interrogatories on February 11, 2022.

ANNUAL FEES FOR HOUSEHOLDS, SEASONAL & EXTENDED SEASONAL

12. In 2022, IWMC expects to provide collection and disposal services to approximately 79,000 residential customers. These customers include 70,740 residential households, 7,630 seasonal residences, and 874 extended seasonal residences.
13. The residential waste management fees are billed on the annual residential property tax bills. These fees account for approximately 77 percent of IWMC's total annual revenue.
14. The residential annual fee includes a variety of services beyond the bi-weekly collection of waste and compost carts, and the monthly collection of recyclables. It also includes

spring and fall cleanup collections, Christmas tree collection, free drop off of appliances, bulk waste, tires, and recyclables at Waste Watch Drop-Off Centres (“WWDCs”), and various other services.

15. In accordance with Commission Order WM21-01, IWMC undertook a cost allocation analysis to determine whether the annual fees charged to residential customers are reflective of the cost of providing service. As part of the Application, IWMC provided a forecast cost allocation analysis for 2022. In support of the cost allocation analysis, IWMC provided detailed explanations and rationale for the allocation of costs and expenditures between its residential and commercial customers.
16. The results of the 2022 cost allocation analysis suggest that year-round residential customers are paying 3.8 percent less than the cost of service; seasonal customers are paying 11.3 percent less than the cost of service; and extended seasonal customers are paying 5.6 percent less than the cost of service.
17. IWMC is seeking rate increases that will allow the corporation to recover the cost of providing service to these customers, while also building a net asset balance.
18. As a result, IWMC is seeking a 5 percent rate increase for year-round residential customers; a 13 percent increase for seasonal customers; and a 7 percent increase for extended seasonal customers.

COMMERCIAL DISPOSAL FEES

19. IWMC derives approximately 22 percent of its total annual revenue from commercial disposal fees. The corporation charges commercial disposal fees at the scales at various IWMC disposal sites, including landfill, compost facilities, PEI Energy Systems and WWDCs.
20. The disposal fees are primarily generated from the industrial, commercial and institutional sectors. These sectors are responsible to transport the waste they generate to the disposal facilities, either by contracting with a commercial hauler or by delivering the waste themselves to a WWDC. The corporation charges a disposal fee, which is usually on a per tonne basis, to recover the costs of handling and disposing of the materials once they are received by IWMC. For example, a contracted commercial waste hauler is currently charged \$100 per tonne for disposal of compostable materials at the Central Compost Facility.
21. IWMC forecasts that it will dispose of approximately 42,000 commercial tonnes in the 2021-2022 fiscal year. Of this amount, 88 percent is charged at \$100 per tonne. Materials received at WWDCs are charged at \$115 to recognize that the material must still be transported to a final disposal facility.
22. The commercial disposal fees of \$100 and \$115 per tonne have been in effect since 2012. Although IWMC’s costs of providing commercial disposal services have increased since 2012, the fees charged for these services have not increased.

23. The results of the 2022 cost allocation analysis suggest that the cost of providing commercial disposal services is 6.1 percent less than the fee charged to commercial customers. This means that although it costs IWMC \$106.10 per tonne to provide commercial disposal service, it is charging commercial customers only \$100 per tonne.
24. IWMC is seeking approval to increase the commercial disposal fee from \$100 to \$108 per tonne, and to increase the WWDC fee from \$115 to \$123 per tonne. The proposed rates are intended to recover IWMC's cost of providing service and contribute to the corporation's proposed net asset balance.

NET ASSET BALANCE

25. IWMC is requesting Commission approval to add 1 percent to the cost of service to build a net asset balance. The 1 percent is included in the rate increases proposed by IWMC in this Application.
26. In accordance with the *Act*, the rates approved by the Commission must allow IWMC to recover the costs incurred to provide each type of service (see *Act*, section 18.1(9)). The Commission also has the discretion to permit IWMC to earn an additional return in respect of its operations (see *Act*, section 18.1(10)). The relevant provision of the *Act* states as follows:

Earnings

(10) The Commission may allow the Corporation to earn, in addition to the return required by subsection (8), such amount as the Commission considers appropriate in respect of the operation of the Corporation.

27. In Commission Order WM21-01R, the Commission recognized that it is reasonable and prudent for IWMC to have a net asset balance on hand to deal with unforeseen financial situations. However, the Commission did not agree that IWMC should have excess unrestricted net assets on hand sufficient to fund its capital expenditures, or that IWMC is entitled to earn an annual rate of return similar to a for-profit public utility.
28. Instead, the Commission concluded that the approved rates should allow IWMC to recover its cost of providing service, and ensure that IWMC has a reasonable net asset balance to cover unforeseen financial situations, thereby minimizing financial risk. Rates that strike this balance are consistent with the cost of service model, and with sections 18.1(9) and (10) of the *Act*.
29. According to IWMC, financial experts recommend that businesses maintain three to twelve months of operating expenses in reserve to manage unexpected costs or reductions in revenue.
30. IWMC's operational costs in 2021 were approximately \$2 million per month. Although approximately 77 percent of IWMC's revenue comes from property tax assessments and is therefore secure, 22 percent of its revenue is not. IWMC also submits that although it does have the ability to secure financing from the Province if necessary, the logistics and

timelines associated with Treasury Board approval limit IWMC's flexibility to navigate unexpected expenses, such as equipment failure.

31. For these reasons, IWMC is seeking Commission approval to create a net asset balance of \$5.5 million. According to IWMC, the proposed net asset balance represents approximately three months of operating expenses for the corporation. IWMC submits that the proposed balance is conservative and at the low end of what is generally recommended.
32. In support of the proposed net asset balance, IWMC submits that the unrestricted assets would reduce the need for an external line of credit and would be sufficient to maintain operations for three months, if necessary. The proposed balance would also provide flexibility to manage cash flow and facilitate one-time expenses, such as research or staff training, and fund smaller capital expenditures.
33. In response to interrogatories, IWMC advised that it does not know when the net asset balance will reach \$5.5 million; however, the corporation expects it will take "*many years*". Once the net asset balance has reached \$5.5 million, IWMC proposes to maintain it at that level in order to support operations.
34. IWMC intends to develop a policy in relation to the restricted and unrestricted net asset balance. The policy is intended to "*present a clearer picture of how corporation resources may be employed*".

DECISION:

35. The rates approved by the Commission must be just and reasonable and allow IWMC to recover its costs of providing service (see *Act*, section 18.1(9)). For the reasons that follow, the Commission approves the annual fees for residential, seasonal and extended seasonal customers, and the commercial disposal fees proposed by IWMC in the Application.
36. The proposed rates are supported by a detailed cost allocation analysis. The cost allocation analysis clearly demonstrates that the annual fee charged to residential, seasonal and extended seasonal customers, and the commercial disposal fees, are less than IWMC's cost of providing service. A rate increase for these customers is, therefore, just and reasonable.
37. Further, the Commission has reviewed the cost allocation analysis and is satisfied that the proposed rates are sufficient for IWMC to recover its costs of providing each type of service.
38. Through the interrogatory process, the Commission asked IWMC to justify the proposed increase for seasonal customers. IWMC is seeking an increase of \$15 per year for seasonal customers, which represents a 13 percent increase.
39. IWMC explained that the proposed increase for seasonal customers is based on the results of the cost allocation analysis. If a lower rate was charged to seasonal customers,

then IWMC would not be covering its cost of providing service. Further, if a lower rate was charged to seasonal customers, then the cost would need to be recovered from other customers. This could result in certain customers subsidizing seasonal customers.

40. In addition to the allocation of costs, the rates proposed by IWMC also include an additional 1 percent that is intended to rebuild IWMC's net asset balance. In total, IWMC is seeking Commission approval to create a net asset balance of \$5.5 million.
41. IWMC is not seeking approval to accumulate the entire net asset balance in a single year. Instead, the balance (if approved) would be accumulated over an indeterminate period of time. IWMC, through the interrogatory process, stated that if the rates proposed in the Application are approved, IWMC forecasts a contribution of \$357,000 to the net asset balance in 2022/2023, and a contribution of \$249,000 in 2023/2024.
42. As stated in Commission Order WM21-01R, the Commission has concerns about IWMC's accumulation of a significant net asset balance. The accumulation of a net asset balance – particularly a balance of \$5.5 million – means that IWMC customers are paying more than their cost of service. In essence, present-day customers would pay more than their cost of service to fund future expenditures – expenditures that may never benefit present-day customers.
43. Further, and as previously stated by the Commission, the net asset balance should not be used to fund capital expenditures. In those circumstances, alternate financing can be obtained.
44. For these reasons, the Commission is not prepared to approve the creation of a net asset balance of \$5.5 million.
45. The Commission does, however, recognize that it is reasonable and prudent for IWMC to have a net asset balance on hand to deal with unforeseen financial situations.
46. The rates proposed by IWMC in the present Application include a 1 percent contribution to the net asset balance. If the rates are approved solely on the basis of cost allocation – without any contribution to the net asset balance – IWMC is forecasting to essentially break even in 2022/2023, and is forecasting a deficit by 2023/2024. Based on this information, the Commission is satisfied that a contribution to the net asset balance is reasonable and necessary for IWMC's operations.
47. Therefore, although the Commission does not approve the creation of a net asset balance of \$5.5 million, the Commission does approve the rates proposed by IWMC, which include a 1 percent contribution to the net asset balance. The Commission is satisfied that the resulting contribution to the net asset balance – forecast to be \$357,000 in 2022/2023 and \$249,000 in 2023/2024 – is reasonable.
48. Finally, the Commission notes that between 2012 and 2020, IWMC did not apply to increase rates for waste management services – despite increasing costs of service. Although the Commission recognizes that the rates proposed by IWMC are consistent with the cost of service, regular review of the corporation's rates may have the impact of

limiting rate increases in any one year, and may alleviate any potential rate shock for customers.

49. For all of these reasons, the Commission approves the proposed annual fees for residential, seasonal and extended seasonal customers, and the commercial disposal fees, inclusive of the 1 percent contribution to the net asset balance. The approved rates shall remain in effect until the earlier of December 31, 2024, or until such time as IWMC seeks approval of new rates.

ORDER:

The Commission Orders as follows:

1. The proposed annual fees for households, seasonal and extended seasonal residences are approved effective January 1, 2022.
2. The commercial disposal fee and Waste Watch Drop-off Centre fee are approved effective April 1, 2022.
3. The lawful rates to be charged by IWMC are therefore as follows:

Fee Category	Current Rate	Approved Rate
Residential Year Round	\$213	\$224
Residential Seasonal	\$115	\$130
Residential Seasonal Extended	\$140	\$150
Commercial Disposal (per tonne)	\$100	\$108
Waste Watch Drop-off Centre (per tonne)	\$115	\$123

4. The lawful rates approved herein shall remain in effect until the earlier of December 31, 2024, or until such time as IWMC seeks approval of new rates.

DATED at Charlottetown, Prince Edward Island, this 24th day of February, 2022.

BY THE COMMISSION:

(sgd) J. Scott MacKenzie

J. Scott MacKenzie, Q.C., Chair

(sgd) M. Douglas Clow

M. Douglas Clow, Vice-Chair

(sgd) Erin T. Mitchell

Erin T. Mitchell, Commissioner