



Docket: WM01307  
Order: WM24-01

**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.

CERTIFIED A TRUE COPY

Cheryl Bradley,  
Senior Financial Advisor  
Island Regulatory & Appeals Commission

---

# Order

---

**BEFORE THE COMMISSION ON Monday**, the 26<sup>th</sup> day of February, 2024.

J. Scott MacKenzie, K.C., Chair  
M. Douglas Clow, Vice-Chair  
Kerri A. Carpenter, Commissioner

## **INTRODUCTION:**

1. In January 2024, the Island Waste Management Corporation (“IWMC” or the “Corporation”) filed an application with the Prince Edward Island Regulatory and Appeals Commission (the “Commission”) seeking to increase the annual waste management fee for households and extended seasonal residences, and to increase the commercial disposal fee and the Waste Watch Drop-Off Centre fee per tonne (the “Application”). IWMC is also proposing to decrease the annual waste management fee for residential seasonal customers.
2. In the Application, IWMC is seeking Commission approval for the following rate adjustments:

	<b>Approved Rates 2022-2023</b>	<b>Cost per Unit based on 2023-24 Cost Allocation Analysis</b>	<b>Cost per unit Plus 1% Net Asset Balance Contribution</b>	<b>Variance to 2022-2023 Rates</b>	<b>Proposed Rate Increase 2024-25</b>	<b>Proposed Rates* 2024</b>
<b>Year Round</b>	224.00	233.27	235.61	11.61	\$12.00	<b>\$236.00</b>
<b>Seasonal</b>	130.00	114.41	115.56	(14.44)	(\$14.00)	<b>\$116.00</b>
<b>Extended Seasonal</b>	150.00	153.29	154.83	4.83	\$5.00	<b>\$155.00</b>
<b>Commercial</b>	108.00	120.57	121.77	13.77	\$14.00	<b>\$122.00</b>

3. If approved, the residential (year round, seasonal and extended seasonal) rates will be effective January 1, 2024 and included in residential property tax bills issued in the Spring of 2024. The proposed Commercial rates will be effective April 1, 2024.
4. According to IWMC, the rates proposed in the Application were developed using financial projections, a cost allocation analysis, and a 1 percent contribution to the net asset balance. The financial information used by IWMC is based on actual results to September 30, 2023, projected forward to March 31, 2024, plus an adjustment to the residential collection costs to account for contract increases effective September 2024 and November 2024. IWMC submits that the proposed rate adjustments are necessary to avoid operating losses and to recover IWMC’s cost of providing service.

## **PROCEDURAL BACKGROUND**

5. In accordance with section 18.1(2) of the *Environmental Protection Act*,<sup>1</sup> 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

---

<sup>1</sup> RSPEI 1988, Cap. E-9 [Act]

proposed by IWMC, to determine and fix new rates, or to refuse the rates proposed by IWMC and confirm the existing rates.<sup>2</sup>

6. Upon receipt of the Application, notice of the Application was published on the Commission 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*.
7. The Commission received comments from five members of the public. All comments received by the Commission were made publicly available on the Commission's website.
8. On January 23, 2024, the Commission issued interrogatories to IWMC seeking additional information with respect to the Application and the proposed rates.<sup>3</sup> Upon receipt of the interrogatories, IWMC identified an error in Section 9 of its Application dealing with the net asset balance. IWMC filed an amended Section 9.0 - Net Asset Balance on January 31, 2024,<sup>4</sup> and filed responses to the Commission's interrogatories on February 12, 2024.<sup>5</sup>

### **ANNUAL FEES FOR HOUSEHOLDS, SEASONAL & EXTENDED SEASONAL**

9. In 2024, IWMC will provide collection and disposal services to over 82,000 residential customers. These customers include 74,009 year round residential households, 7,634 seasonal residences, and 924 extended seasonal residences. While year round residential customers receive service five days a week for 52 weeks of the year (260 days), seasonal and extended seasonal customers receive service over a 90 day or 120 day period, respectively.
10. The residential waste management fees are billed on the annual residential property tax bills and account for approximately 79 percent of IWMC's total annual revenue.
11. 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. Instead, the annual fee 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.
12. As part of the services provided to residential customers, IWMC contracts with commercial haulers to collect cart materials (alternating waste cart one week and compost cart the next week), as well as the monthly collection of recyclable materials. The present cart collection contracts for waste and compost end in the Fall of 2024, and the contracts for the collection of recyclables end in June 2025.
13. In May 2023, IWMC issued a request for proposals for residential cart collections for all six regions in PEI. Following a comprehensive evaluation by IWMC and an external waste management procurement specialist, IWMC has awarded six contracts for Island-wide residential waste and organic curbside collection. The new contracts come into effect on

---

<sup>2</sup> *Act*, s. 18.1(4)

<sup>3</sup> Exhibit C-1

<sup>4</sup> Exhibit I-2

<sup>5</sup> Exhibit I-3

September 1, 2024 for East and West Prince, and on November 1, 2024 for the Central and Eastern regions of the Island.<sup>6</sup>

14. According to IWMC, inflationary pressures over the past several years have resulted in significant increases to the major cost components in residential cart collection, including wages, fuel and equipment. These cost increases will impact the residential rates that IWMC must charge to recover its cost of providing service.
15. IWMC has also further analyzed the methodology used to allocate costs between the three residential rate classes (year round, seasonal and extended seasonal). Previously, the cost of providing service to each class of residential customer was calculated by pooling the total cost of providing service to each class and then dividing by the total number of customers in the class. This allowed IWMC to arrive at a “cost per unit” for each class of residential customer.
16. IWMC submits that a more appropriate way to allocate costs is to take the total aggregate collection costs for all classes of residential customers, and to allocate the costs based on the number of collections in the year and on the assessed level of effort and time required for each category. IWMC submits that this approach “*represents a more rational and fairer approach in the allocation of collection costs*” to the residential rate classes.<sup>7</sup> This change in methodology results in a reduction to the seasonal residential rate in 2024.
17. In the Application, IWMC has proposed a 5.4 percent rate increase for year round residential customers, a 10.8 percent decrease for seasonal customers, and a 3.4 percent increase for extended seasonal customers. IWMC submits that the proposed rate adjustments will allow the Corporation to recover the cost of providing service to all classes of residential customers, while also building a net asset balance.

## COMMERCIAL DISPOSAL FEES

18. Approximately 20 percent of IWMC’s total annual revenue is derived from commercial disposal fees. The commercial disposal fees are charged at the scales at various IWMC disposal sites, including landfill, compost facilities, PEI Energy Systems and WWDCs.
19. 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 delivering the waste themselves to a WWDC. The disposal fee, which is usually on a per tonne basis, is charged 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 \$108 per tonne for disposal of compostable materials at the Central Compost Facility.
20. IWMC forecasts that it will dispose of approximately 46,000 commercial tonnes in the 2023-2024 fiscal year. Of this amount, 84 percent is charged at \$108 per tonne. Materials

---

<sup>6</sup> Application, Section 13, pages 41-42

<sup>7</sup> Application, Section 4, page 14

received at WWDCs are charged at \$123 to recognize that the material must still be transported to a final disposal facility.

21. The results of the most recent cost allocation analysis suggest that the cost of providing commercial disposal services is 12.57 percent more than the fee charged to customers. This means that although it costs IWMC \$120.57 per tonne to provide commercial disposal service, it is charging commercial customers only \$108 per tonne.
22. IWMC is seeking approval to increase the commercial disposal fee from \$108 to \$122 per tonne, and to increase the WWDC fee from \$123 to \$137 per tonne.
23. The increase in the disposal fee at the WWDCs is intended to mitigate the cost to move the materials to final disposal. According to IWMC, the fee increase does not purport to recover the full cost of final disposal, as this may be prohibitive and could discourage the use of WWDCs for proper disposal.<sup>8</sup>

### **EAST PRINCE LANDFILL RETIREMENT OBLIGATION**

24. The *Act* requires that a landfill be properly closed when its useful life has ended. In 2011, cells 1 and 2 at the East Prince Waste Management Facility (“EPWMF”) were capped.
25. In April 2023, IWMC requested an updated Opinion of Probable Cost (“OPC”) that detailed the construction costs to cap the remainder of the EPWMF. Based on the updated OPC, the total cost to cap the remainder of the EPWMF is estimated to be \$14,371,000 plus HST. This represents a cost increase of 356 percent over the 2011 cost to cap cells 1 and 2.
26. The updated OPC is reflected in the Asset Retirement Obligation 2023 calculation in IWMC’s audited financial statements.
27. Having been added to the cost of the cell in annual increments, the total liability of \$8,683,006 at March 31, 2023 is included as part of the total cell cost of \$19,450,773. Each year, the amortization of the cell includes, as a component, amortization of \$8,683,006. Since amortization is an eligible expense in the cost allocation model, the total amount of the amortization of the closing cost to March 31, 2023 (\$3,129,164) has been theoretically recovered from customers, and represents the amount that should have been set aside to fund the future retirement obligation.
28. In response to the Commission’s interrogatories, IWMC advised that the \$3,129,164 collected from customers has been theoretically used to fund capital items.<sup>9</sup> To replace the funds already collected but no longer available, IWMC would need to borrow against existing capital assets and put the funds into a restricted account to be used when EPWMF is retired. As the final retirement obligation is not yet known, IWMC is doubtful that borrowing funds now – and incurring interest and principal costs – makes sense.

---

<sup>8</sup> Application, Section 4, page 16

<sup>9</sup> Exhibit I-3, response to IR-4

29. Instead, IWMC intends to work with its Board of Directors to review the feasibility of placing funds into a restricted account that will accumulate each year. Although the plan is not yet fully developed and requires Board approval, IWMC anticipates it will be implemented prior to December 31, 2024.

## NET ASSET BALANCE

30. IWMC is requesting Commission approval to add 1 percent to the cost of service to continue to build a net asset balance. The 1 percent is included in the rate adjustments proposed by IWMC in this Application.
31. 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.<sup>10</sup> The Commission also has the discretion to permit IWMC to earn an additional return in respect of its operations.<sup>11</sup> 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.*

32. 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. The Commission did not, however, agree that IWMC should have excess cash 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.
33. 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*.
34. In Order WM22-01, the Commission reiterated these findings and denied IWMC's request to create a net balance of \$5.5 million. The Commission did, however, approve IWMC's request to include a 1 percent contribution to the net asset balance in IWMC's rates. Based on IWMC's financial position and the forecast annual contribution to the net asset balance, the Commission was satisfied that an annual contribution of 1 percent was, in the circumstances, reasonable.
35. In this Application, IWMC acknowledges that it would be inappropriate for IWMC, a conduit of the provincial government, to expect a return on investment. Instead, IWMC submits that the purpose of the net asset balance is to reserve funds that would allow IWMC sufficient working capital to address the uncertainties and irregularities of business, and

---

<sup>10</sup> *Act*, s. 18.1(9)

<sup>11</sup> *Act*, s. 18.1(10)

be well positioned to address other items, such as the retirement/replacement of assets and the retirement of debt.

36. The rates approved in 2022 included an annual contribution to the net asset balance of 1 percent. According to IWMC, the actual contribution to the net asset balance was \$342,088 in 2022/2023, and the 2023/2024 contribution is forecast to be \$67,400. As of March 31, 2023, the net asset balance was \$1.67 million. The balance decreased to \$1.388 million as of December 31, 2023.<sup>12</sup>
37. In this Application, IWMC is again requesting Commission approval to establish a net asset balance of \$5.5 million, representing 20 percent of IWMC's total asset balance. According to IWMC, the net asset balance will reduce the need for an external line of credit and will be sufficient to maintain operations for approximately three months.
38. In response to the Commission's interrogatories, IWMC advised that if the proposed rates are approved, the forecast contribution to the net asset balance will be \$258,300 in 2024/2025 and \$261,400 in 2025/2026.<sup>13</sup>

## **DECISION:**

39. The rates approved by the Commission must be just and reasonable and allow IWMC to recover its costs of providing service.<sup>14</sup> 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.
40. The proposed rates are supported by a detailed cost allocation analysis. The cost allocation analysis clearly demonstrates that the annual fee charged to residential 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.
41. The Commission accepts IWMC's revised cost allocation methodology used to allocate costs between the three residential rate classes (year round, seasonal and extended seasonal). Based on this revised methodology, there is a reduction in the seasonal residential rate for 2024. The Commission finds that the proposed rate adjustment for seasonal customers, based on IWMC's cost allocation analysis, is just and reasonable.
42. In addition to the allocation of costs, the rates proposed by IWMC include an additional 1 percent that is intended to be contributed to IWMC's net asset balance. IWMC is again seeking Commission approval to create a net asset balance of \$5.5 million.
43. In Commission Order WM22-01, the Commission allowed a 1 percent contribution to the net asset balance, but denied IWMC's request to establish a net asset balance of \$5.5 million. IWMC did not present any new or additional evidence in support of its request in

---

<sup>12</sup> Exhibit I-3, Response to IR-9

<sup>13</sup> Exhibit I-3, Response to IR-9(d)

<sup>14</sup> Act, s. 18.1(9)



this Application. As a result, although the Commission will approve the proposed rates – including the 1 percent contribution to the net asset balance – the Commission does not approve the creation of a net asset balance of \$5.5 million.

44. As stated in Commission Orders WM21-01R and WM22-01, a net asset balance 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.
45. Further, and as previously stated by the Commission, the net asset balance should not be used to fund significant capital expenditures. In those circumstances, financing can be obtained.
46. Although the Commission does not approve the creation of a net asset balance of \$5.5 million, the Commission continues to recognize that it is reasonable and prudent for IWMC to have a net asset balance on hand to deal with unforeseen financial situations.
47. 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 a deficit of \$301,600 by 2025/2026.<sup>15</sup> Based on this information, the Commission is satisfied that a contribution to the net asset balance is reasonable and necessary for IWMC’s operations.
48. 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 \$258,300 in 2024/2025 and \$261,400 in 2025/2026<sup>16</sup> – is reasonable.
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, 2026, 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, 2024.
2. The commercial disposal fee and Waste Watch Drop-off Centre fee are approved effective April 1, 2024.

---

<sup>15</sup> Exhibit I-3(b)

<sup>16</sup> Exhibit I-3, Response to IR-9(d)



3. The lawful rates to be charged by IWMC are therefore as follows:

<b>Fee Category</b>	<b>Current Rate</b>	<b>Approved Rate</b>
Residential Year Round	\$224	\$236
Residential Seasonal	\$130	\$116
Residential Seasonal Extended	\$150	\$155
Residential Min-Max	\$5 min – \$30 max	\$5 min – \$30 max
Commercial Disposal (per tonne)	\$108	\$122
Waste Watch Drop-off Centre (per tonne)	\$123	\$137

4. The lawful rates approved herein shall remain in effect until the earlier of December 31, 2026, or until such time as IWMC seeks approval of new rates.

**DATED** at Charlottetown, Prince Edward Island, this 26<sup>th</sup> day of February, 2024.

**BY THE COMMISSION:**

(sgd) J. Scott MacKenzie

---

J. Scott MacKenzie, K.C., Chair

(sgd) M. Douglas Clow

---

M. Douglas Clow, Vice-Chair

(sgd) Kerri A. Carpenter

---

Kerri A. Carpenter, Commissioner