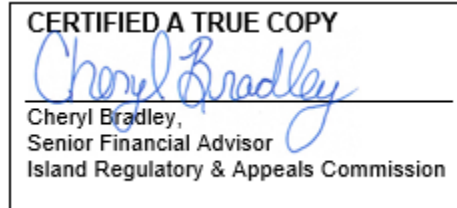




Docket: WM01308
Order: WM25-01



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.

Order

BEFORE THE COMMISSION ON Friday, the 28th day of February, 2025.

Kerri A. Carpenter, Acting Chair
M. Douglas Clow, Acting Vice-Chair

INTRODUCTION:

1. In December 2024, the Island Waste Management Corporation (“IWMC”) filed an application with the Prince Edward Island Regulatory and Appeals Commission (the “Commission”) seeking to increase the annual waste management fee for all classes of residential customers (the “Application”).¹
2. In the Application, IWMC is seeking Commission approval for the following rate adjustments:

	Approved Rates 2023-2024	Cost per Unit based on 2024-25 Cost Allocation Analysis	Plus 1% Net Asset Balance Contribution	Variance to 2023-2024 Rates	Proposed Rate Increase 2025	Proposed Rates 2025
Year Round	236.00	258.13	260.71	(24.71)	\$25.00	\$261.00
Seasonal	116.00	128.43	129.72	(13.72)	\$14.00	\$130.00
Extended Seasonal	155.00	168.87	170.56	(15.56)	\$16.00	\$171.00
Commercial	122.00	120.44	121.64	0.36	\$0.00	\$122.00

3. If approved, the residential (year round, seasonal and extended seasonal) rates will be effective January 1, 2025 and included in residential property tax bills issued in the Spring of 2025. IWMC is not proposing any change to the commercial disposal fee (\$122 per tonne) or the Waste Watch Drop-off Centre (“WWDC”) fee (\$137 per tonne).
4. According to IWMC, the rates proposed in the Application were developed using a cost allocation model based on historical and projected financial information, plus a 1 percent contribution to the net asset balance. The financial information used by IWMC is based on actual results to August 31, 2024, projected forward to March 31, 2025.²

PROCEDURAL BACKGROUND

5. In accordance with section 18.1(2) of the *Environmental Protection Act*,³ 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.⁴

¹ Exhibit I-1

² Exhibit I-1, Section 3, page 7

³ RSPEI 1988, Cap. E-9 [Act]

⁴ Act, s. 18.1(4)

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 12 members of the public. All comments received by the Commission were made publicly available on the Commission's website.
8. On January 29, 2025, the Commission issued interrogatories to IWMC seeking additional information with respect to the Application and the proposed rates.⁵ IWMC filed responses to the Commission's interrogatories on February 14, 2025.⁶

ANNUAL FEES FOR HOUSEHOLDS, SEASONAL & EXTENDED SEASONAL

9. In 2025, IWMC will provide collection and disposal services to over 83,500 residential customers. These customers include 74,954 year round residential households, 7,612 seasonal residences, and 946 extended seasonal residences.⁷ 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 74 percent of IWMC's total annual revenue.⁸
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. In addition, the annual fee also includes spring and fall cleanup collections, Christmas tree collection, free drop off of appliances, bulk waste, tires, and recyclables at 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.
13. The residential cart collection contracts for waste and compost ended in the Fall of 2024. In May of 2023, IWMC issued detailed Requests for Proposals (RFPs) for residential cart collections for all six regions of the Island.
14. IWMC describes the RFP process as extensive. The RFP was circulated on the Provincial Government website to ensure that potential bidders were aware. IWMC received responses from three different proponents, two of which operated within PEI and one national waste firm.⁹

⁵ Exhibit C-1

⁶ Exhibit I-2

⁷ Exhibit I-1, Section 5, page 11

⁸ Exhibit I-1, Section 4, page 9

⁹ Exhibit I-2, Response to IR-6

15. Following a comprehensive evaluation by IWMC and an external waste management procurement specialist, IWMC awarded six contracts for Island-wide residential waste and organic curbside collection.¹⁰ The new contracts came into effect on September 1, 2024 for East and West Prince, and on November 1, 2024 for the Central and Eastern regions of the Island.¹¹
16. In addition to the contracts for waste and compost, the contract for the collection of recyclables ends on June 30, 2025. IWMC advises that it has negotiated an extension of the recyclables collection contract for the next three years on favourable terms. The contract extension is subject to Treasury Board approval.¹²
17. IWMC states that the new residential collection contracts have increased the cost of providing service to residential customers. In 2025, the collection contract costs are expected to increase by \$1.8 million, or 23.4 percent. These costs account for approximately 48 percent of residential service costs in 2025. The remaining 52 percent of residential costs are projected to increase by 3.5 percent. As a result, the overall cost of providing service to residential customers will increase by 12.1 percent.¹³
18. In the Application, IWMC has proposed a 10.6 percent rate increase for year round residential customers, a 12.1 percent increase for seasonal customers, and a 10.3 percent increase for extended seasonal customers. These proposed rate increases include a 1 percent contribution to the net asset balance.¹⁴
19. In addition to the annual fee, residential customers pay a disposal fee for certain materials that are disposed of at WWDCs. The residential disposal fees are designed to charge a minimum and maximum amount for the disposal of certain residential waste, yard trim and compost material. The residential disposal fees currently range from \$5.00 (minimum) to \$30.00 (maximum). IWMC is not proposing any change to the minimum or maximum residential disposal fee as part of this Application.

COMMERCIAL DISPOSAL FEES

20. Approximately 25 percent of IWMC's total annual revenue is derived from commercial disposal fees.¹⁵ The commercial disposal fees are charged at the scales at various IWMC disposal sites, including landfill, compost facilities, PEI Energy Systems and WWDCs.
21. In 2024, IWMC applied to increase its commercial disposal fee and WWDC fee.¹⁶ These rate increases were approved by the Commission, effective April 1, 2024.¹⁷

¹⁰ Exhibit I-1, Section 5, page 14

¹¹ Exhibit I-1, Section 16, page 44

¹² Exhibit I-1, Section 5, page 14

¹³ Exhibit I-1, Section 1, page 3

¹⁴ Exhibit I-1, Section 3, pages 7-8

¹⁵ Exhibit I-1, Section 4, page 9

¹⁶ Docket WM01307, Exhibit I-1

¹⁷ Order WM24-01

22. As part of this Application, IWMC is not proposing any change to either the commercial disposal fee or the WWDC fee.
23. IWMC explains that, based on its cost allocation model, the cost of providing commercial disposal service is \$121.64 per tonne, which includes a 1 percent contribution to the net asset balance. The rate charged for commercial disposal service is \$122 per tonne.¹⁸ As a result, a rate adjustment has not been requested.

NET ASSET BALANCE

24. 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 adjustments proposed by IWMC in this Application.¹⁹
25. As summarized below, the actual rate impact of the proposed 1 percent contribution to the net asset balance varies depending on the type of service provided:

	Cost per Unit based on 2024-25 Cost Allocation Analysis	Plus 1% Net Asset Balance Contribution	Rate Impact of the Proposed 1% Net Asset Balance Contribution
Year Round	258.13	260.71	\$2.58
Seasonal	128.43	129.72	\$1.29
Extended Seasonal	168.87	170.56	\$1.69
Commercial	120.44	121.64	\$1.20

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.²⁰ The Commission also has the discretion to permit IWMC to earn an additional return in respect of its operations.²¹ 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

¹⁸ Exhibit I-1, Section 1, page 3

¹⁹ Exhibit I-1, Section 12, pages 33-38

²⁰ *Act*, s. 18.1(9)

²¹ *Act*, s. 18.1(10)

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. The Commission did not, however, agree that IWMC should have excess revenue 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. In Order WM22-01, the Commission reiterated these findings and denied IWMC's request to create a net asset 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.
30. In Order WM24-01, the Commission again denied IWMC's request to create a net asset balance of \$5.5 million. However, the Commission approved the rates proposed by IWMC, which included a 1 percent contribution to the net asset balance. When IWMC filed its 2024 rate application in January 2024, the forecast contribution to the net asset balance was \$258,300 in 2024/2025 and \$261,400 in 2025/2026.
31. Despite these forecasts, by the time IWMC filed this Application in December 2024, its net asset balance had decreased, rather than increased. According to IWMC, for the four years following 2020, IWMC's investment in unrestricted net assets declined by \$1,057,000, dropping from \$1,614,000 to \$557,000 by March 31, 2024.²²
32. Through the interrogatory process, the Commission questioned why the net asset balance was decreasing, even though the rates approved by the Commission included a 1 percent contribution to the net asset balance.²³
33. IWMC advised that the net asset balance decreased as expenditures were greater than revenues, due primarily to inflationary pressures on costs.²⁴ However, IWMC also acknowledged that in 2024, it used operating funds for capital purchases, rather than financing those purchases.²⁵

²² Exhibit I-1, Section 12, page 34

²³ Exhibit C-1, IR-10

²⁴ Exhibit I-2, Response to IR-10

²⁵ Exhibit I-2, Response to IR-12(a)

34. In 2024, IWMC used \$824,653 of operating funds to fund capital purchases.²⁶ According to IWMC, it did not finance the purchases due to the “*unusually higher than normal interest rates being experienced*”.²⁷ IWMC intends to resume financing various capital expenditures with long-term financing now that interest rates have declined.²⁸

DECISION:

35. The rates approved by the Commission must be just and reasonable and allow IWMC to recover its costs of providing service.²⁹ For the reasons that follow, the Commission approves residential and commercial rates calculated in accordance with IWMC’s cost allocation model. The Commission does not approve the proposed 1 percent contribution to the net asset balance.
36. As a result, the rates approved by the Commission are as follows:

	Approved Rates 2024	IWMC Proposed Rates 2025	Approved Rates 2025
Residential Year Round	\$236.00	\$261.00	\$259.00
Residential Seasonal	\$116.00	\$130.00	\$129.00
Residential Extended Seasonal	\$155.00	\$171.00	\$169.00
Residential Min-Max	\$5 min - \$30 max	\$5 min - \$30 max	\$5 min - \$30 max
Commercial Disposal (per tonne)	\$122.00	\$122.00	\$121.00
Waste Watch Drop-off Centre (per tonne)	\$137.00	\$137.00	\$136.00

37. As explained by IWMC, the cost of providing residential collection services is forecast to increase by \$1.8 million, or 23.4 percent, in 2025 due to new residential collection contracts. In accordance with cost of service regulation, IWMC is entitled to recover these additional costs from its residential customers. A rate increase for residential year round, seasonal and extended seasonal customers is therefore justified.

²⁶ Exhibit I-2, Response to IR-12(a)

²⁷ Exhibit I-2, Response to IR-12(a)

²⁸ Exhibit I-2, Response to IR-12(b)

²⁹ Act, s. 18.1(9)

38. IWMC has calculated the rates for each class of residential customer using a detailed cost allocation analysis. The Commission approves the new residential rates based on the results of IWMC's cost allocation analysis, rounded upward to the nearest dollar. These rates are effective as of January 1, 2025.
39. Further, although IWMC has not proposed any change to the commercial disposal fee (currently \$122 per tonne) or the WWDC fee (currently \$137 per tonne), these fees include a contribution to the net asset balance. As the Commission has not approved the proposed contribution to the net asset balance as part of this Application, the commercial disposal fee shall be reduced to \$121 per tonne, so that it is consistent with the results of IWMC's cost allocation analysis, rounded upward to the nearest dollar.
40. Similarly, the WWDC fee, which is based on the commercial disposal fee plus transportation costs, is reduced from \$137 per tonne to \$136 per tonne. The changes to both the commercial disposal fee and the WWDC fee are effective April 1, 2025.
41. In previous Orders, the Commission has approved a limited net asset balance to deal with unforeseen financial situations. However, the Commission has repeatedly stated that the net asset balance should not be used for capital expenditures.³⁰
42. Despite this direction, IWMC used operating funds (\$824,653) to fund capital expenditures in 2024.³¹ This decision contributed to the declining unrestricted net asset balance, and contributed (in part) to the need for a rate increase in 2025.
43. As explained in previous Commission Orders, a net asset balance means that IWMC customers are paying more than their cost of service.³² When excess operating funds collected from present-day customers are used to finance capital assets, this benefits future customers (who will have the benefit – but not the cost – of those capital assets). However, it is detrimental to present-day customers who are paying more than IWMC's cost of providing service.
44. The Commission considers IWMC's practice of using operating funds to purchase capital assets as being contrary to cost of service regulation, and the principle of intergenerational equity between customers. For these reasons, the Commission does not approve the proposed 1 percent contribution to the net asset balance for 2025.
45. The Commission also notes that IWMC has applied for rate increases in four of the last five years (2021, 2022, 2024 and 2025). For year round residential customers, IWMC rates have increased by \$54.00, or 27 percent, since 2020.³³
46. In 2022, 2023 and 2024, the Provincial Government provided financial grants to IWMC to subsidize the rate increases for both residential and commercial customers.³⁴ IWMC does

³⁰ Order WM21-01R at para. 52; Order WM22-01 at para. 43; Order WM24-01 at para. 45.

³¹ Exhibit I-2, Response to IR-12

³² Order WM24-01 at para. 44

³³ The rate for year round residential customers was \$205 in 2020. The approved rate for 2025 is \$259.

³⁴ Exhibit I-1, Section 14, page 41

not know if the subsidy will be provided in 2025.³⁵ As a result, in 2025, customers could feel the cumulative impact of three rate increases at once.³⁶

47. IWMC acknowledges that although the rate increases may be substantial for some customers, it cannot arbitrarily propose lower rates that would not allow for sufficient cost recovery.³⁷ Although the Commission agrees, it is also concerned about potential rate shock for IWMC customers.
48. The Commission is also concerned about the frequency of rate applications. As noted, IWMC has applied for rate increases in four of the last five years. Submitting rate applications for a single year increases the regulatory burden for both IWMC and the Commission. It also leads to a lack of certainty for IWMC's commercial and residential customers who are ultimately required to pay the new rates. For these reasons, the Commission strongly encourages IWMC to submit multi-year rate applications in the future.

ORDER:

The Commission Orders as follows:

1. The proposed 1 percent contribution to the net asset balance is not approved.
2. The approved rates to be charged by IWMC are as follows:

Fee Category	Current Rate	Approved Rate
Residential Year Round	\$236	\$259
Residential Seasonal	\$116	\$129
Residential Seasonal Extended	\$155	\$169
Residential Min-Max	\$5 min – \$30 max	\$5 min – \$30 max
Commercial Disposal (per tonne)	\$122	\$121
Waste Watch Drop-off Centre (per tonne)	\$137	\$136

3. The approved rates for residential year round, seasonal, and extended seasonal customers are effective as of January 1, 2025.
4. The commercial disposal fee and Waste Watch Drop-off Centre fee are approved effective April 1, 2025.
5. The rates approved herein shall remain in effect until the earlier of December 31, 2027, or until such time as IWMC seeks approval of new rates.

³⁵ Exhibit I-2, Response to IR-2

³⁶ Exhibit I-1, Section 14, page 41

³⁷ Exhibit I-2, Response to IR-1(a)

DATED at Charlottetown, Prince Edward Island, this 28th day of February, 2025.

BY THE COMMISSION:

(sgd) Kerri A. Carpenter

Kerri. A. Carpenter, Acting Chair

(sgd) M. Douglas Clow

M. Douglas Clow, Acting Vice-Chair