Stewardship Ontario

Thinking beyond the box

Blue Box Fee Setting Methodology

Consultation Meeting/Webinar #2

July 24, 2012

Welcome

- In person (46)/ Webcast audience (39)
  - Slides advance automatically
  - Question box for questions/ comments on webcast console
  - While dialogue difficult in this format, we have set aside blocks of time for questions/answers and comments
- Webcast will be archived and made available on line for future review

Agenda

1. How did we get here?
2. What did we learn from steward submissions?
3. Review options for consideration
4. Next Steps

How did we get here? (1)

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- 2006: last major review of fee methodology
- 2011: Stewardship Ontario committed to a review of methodology at request of stewards because:
  - Significant changes to consumer expectations and marketplace packaging trends since 2006 review
  - Complex fee methodology made more complex by numerous input variables
  - Difficult to understand, even more difficult to explain

How did we get here ? (2)

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- May 31, 2012: "First Principles" discussion with blue box stewards to:
  - Determine what kinds of modifications stewards would like to see
  - Begin to explore potential implications of modifications
  - Determine how much appetite there is for change that would impact fees

Blue Box Program Objectives

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1. Deliver curbside recycling to consumers at lowest possible cost
2. Ensure widest range of printed paper and packaging is recycled
3. Make the steward experience with program as positive as possible

Original principles of model

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- Share costs fairly and equitably among stewards
- Meet policy objectives of Waste Diversion Act
  - Sufficient funds are raised from stewards to meet industry's obligations under the program
  - Increase recycling rate of blue box materials
  - Steward fees must fairly reflect costs of managing the materials
- Reward materials that achieve comparatively higher recycling rates, without arbitrary cross-subsidization
- Fairly assesses common costs

What has changed since 2006?

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- Steward innovation is changing material mix
- Consumers equate sustainable packaging with ability to put in blue box
- Need to foster ways to recycle all materials economically, not just go after “next least cost tonne”
- Some stewards have asked that they be rewarded for packaging with reduced carbon/water footprint and recycled content

What we heard: Consensus

- Simplify fee setting methodology
- Eliminate cross-subsidization: formula should more accurately reflect actual cost to manage each material
- No fee increases
- Do not consider Life Cycle Analysis
- Simplify allocation of common costs
- Encourage consistency of materials collected across municipalities
- Harmonize with other provinces
- Would like some options to analyze

Some said…

- Collect broadest range of materials possible/Keep next least cost tonne.
- Fully disaggregate material categories
- Do not reward recycled content/Yes provide credit
- Three factor formula unfairly penalizes high performing materials
- Little feedback on three year rolling average, but those who responded said it should be maintained.
- Newsprint should not be permitted to fulfil obligation with in-kind contribution

Boils down to this

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- Stewards want...
  - Fairness
  - Simplicity
  - Understandability: can be explained and understood in context of stewards' businesses.
- but do not have an appetite for radical change

Current 3FF Explained…

Logic	Name	Description	All Else Equal
I pay for what does not get recycled and is disposed.	Recovery Factor (35%)	Tonnes Disposed (unrecovered) distributed between PPP	If recovery rate increases, fee rate decreases
I pay for the net cost of recycling my product (costs minus revenues)	Net Cost Factor (40%)	Sum of net cost (gross cost less revenues) distributed between PPP	If net cost increases, fee rate increases
What would I be paying if I were to achieve the 60% target?	Equalization Factor (25%)	Net cost to recover required tonnes to achieve 60% target.	Higher tonnes needed to achieve 60% and/or higher cost/tonne produces higher fee rate

A Second Option

- Interesting new option arose from steward community.
- Our first assessment is that:
  - It is consistent with the methodology’s core principles
  - Stewards may find it simpler and more meaningful/understandable
  - Stewards may find the resulting changes (some significant) acceptable to achieve simplicity

Option 2

Logic	Name	Description	All Else Equal
I pay for what I put into the marketplace.	Generation factor (45%)	Generated tonnes distributed between PPP	If generation increases, fee rate increases
I pay for the cost of recycling my product.	Gross cost factor (45%)	Sum of recovered tonnes x gross cost to handle	If recovered tonnes or gross cost increases, fee rate increases
I pay for what does not get recycled and is disposed.	Unrecovered factor (10%)	Disposed tonnes (unrecovered) distributed between PPP (up to 60% target)	If disposed tonnes increase, fee rate increases

Revenues applied after 3FF calculated

When considering the options

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- Numbers are all based on 2010 data, comparing the fees you paid this year with what you would have paid if the alternative model was in place
- Remember that 2013 fee schedule will reflect the following:
  - 2012 was final year of plastic market development fee
  - Stewardship Ontario obligation will differ (TBD)
  - 2011 data analysis verification done (pending)
  - ABC study results to be incorporated
  - Bale and curbside audit results to be incorporated

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10 minute break followed by review of options

Option 1 – Status Quo

Pros

- Established, proven and reasonably successful for almost 10 years
- Ensures all materials share cost of supporting the blue box
- Consistent with approach used in other provinces

Cons

- Complex: difficult to understand and explain

Option 2 – New Approach

Pros

- Simple and logical
- Ensures all materials share cost of supporting the blue box

Cons

- Still involves complex mathematics
- Fees change, some significantly
- Departure from approach in other provinces

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Comments & Questions

Common costs options

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3 options for calculating common costs:

1. **Status quo**: 40% weight + 60% volume of <u>generated material</u> divided amongst percentage of stewards of each material category
2. **Status quo modified**: Total weight (kg) of <u>generated material</u> divided amongst percentage of stewards of each material category.
3. **New approach**: Total weight (kg) of <u>material supplied to market</u> (as reported by stewards) divided amongst percentage of stewards in each material category.

Impacts

- Changing the way we calculate common costs from the status quo:
  - Eliminates reliance on disputed density data in the common cost calculation
  - Simplifies methodology
  - Some, but not radical shifts in costs among materials

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Comments & Questions

Next Steps

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- Stewards invited to try out different scenarios (including aggregated and disaggregated fee rates) by using worksheet posted at www.stewardshipontario.ca.
- Send questions about the worksheet to WeRecycle@Stewardshipontario.ca. Please put "Worksheet" in the subject line.
- Provide comments/preferences by **August 21, 2012.**
- Send submissions to WeRecycle@Stewardshipontario.ca.

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Thank you