

Q&A

Review of Blue Box 2012 Rules Recommendations and Preliminary Fee Schedule

October 18, 2011

Rules Recommendations

1. *Is the late payment fee calculated monthly?*

A: The recommended penalty is to apply a one-time 10% late payment penalty plus an annual rate of prime plus 4% calculated monthly.

2. *Will the administrative fees represent the actual cost incurred to Stewardship Ontario by those stewards who reported late?*

A: Yes, the administrative fees will represent the costs in time, effort and management to Stewardship Ontario. As we discussed at our September 14th meeting currently the entire steward community is paying for the cost of non-compliant stewards, including associated accounting, auditing and legal costs. The principle behind the application of administrative fees is to apply those costs specifically to the stewards who incur them. Before they are applied we will develop appropriate procedures and protocols to ensure the fees fairly reflect the costs incurred.

3. *Will the reporting deadline be July 31, 2012?*

A: Yes the recommendation is that stewards be given an additional four months to complete their reports by moving the reporting deadline to July 31st. This means that the March 31st deadline will no longer apply.

On July 31, 2012 stewards will report on their 2011 data year.

4. *Which data will be used to calculate stewards' fee invoices in 2012?*

A: Stewardship Ontario will calculate stewards' 2012 fee invoices based on your 2010 data year. The recommendation is to revise the calculation of steward fee payments so that costs, fee rates and fee payments would all be drawn from the same calendar year. This change will mean stewards will know in the fall what their obligation is for the coming year, making annual budgeting much easier.

5. *What will the invoice due dates be? Can we make our payment in one lump sum?*

A: The fee invoice due dates will not change. They will continue to be April 30th, June 30th, September 30th and December 1st. The reporting and payment schedule is set out in Appendix C of the Recommended Blue Box Rules available [here](#). And yes, you are free to make your payment in one lump sum by April 30th.

6. *If a steward discovers that they have under reported, when will the associated payment be due?*

A: Essentially the principle is debits are payable immediately and credits will be payable in accordance with the payment schedule associated with the following obligation year. A complete description of payment adjustments is set out in Appendix C of the Recommended Blue Box Rules available [here](#).

7. *Given that the 2012 payment is based on 2010 data, if it is discovered that a steward underpaid once the 2011 data is submitted, when would the steward pay the difference?*

A: If you under reported your 2010 data, but notified Stewardship Ontario, then in accordance with the 2011 rules, your 2011 payment is due immediately, and in accordance with the 2012 rules, your payment is due 30 days from publication of the approved 2012 fee schedule. For a complete description of payment adjustments refer to Appendix C of the Recommended Blue Box Rules available [here](#).

Preliminary Fee Schedule

8. *What were the key reasons for the dramatic increase in the PET fees?*

A: The fees allocated to PET have increased by 9% and the fee rate (allocated fees divided by sales) has increased by 2.46 cents/kg (+18%). This is due to a 10% increase in the tonnes recovered which contributes to a higher net cost per tonne. The increase in recovery which would typically lower the cost within the three factor formula has been offset by the increase in the net cost to manage PET. Revenue for PET has decreased by 3% and the gross cost has gone up by 6%. The fee rate has increased by 2.46 cents/kg due to the decrease in reported steward sales which results in the fees being distributed over a smaller share of stewards.

9. *Why did fees for aluminum increase?*

A: This year the three-year rolling revenue for aluminum declined by \$1.6M, or to put it another way, the three-year-rolling average declined by 10% even though the price of aluminum has been steadily increasing over the last couple of years. The 10% decline is caused by the 2007 revenues having dropped off the three-year-rolling-average and 2010 revenues being added. While 2010 aluminum revenues for 2010 were higher than 2009, the peak year for revenues was in fact 2007. When the revenues for 2008, 2009 and 2010 were averaged, there was a 10% decline because the price crashed in 2008. Up to now stewards have not felt the brunt of the 2008 crash because the three-year-rolling-average smooths out market volatility. This year it actually accounts for the increase in fees for aluminum which in real terms represented a \$152/tonne decline in prices and a loss of \$1.6M in revenues.

10. *Why did fees for magazines and catalogues increase so dramatically?*

A: There are a number of factors that contributed to the increased fee rate for the magazines and catalogues category for 2012. They include:

- A 9% increase in the recovered tonnes of material.
- An increased net cost to manage the material. Recent bale audits have revealed newspapers, magazines and telephone books are being handled with more expensive to manage materials.
- Printed paper experienced a 5% decline in revenues from the commodity markets.
- Finally, the tonnes recovered from all other packaging decreased by 4.3% which resulted in printed paper bearing a larger portion of the cost than it has historically. In fact the system cost borne by the printed paper category increased from 7% to 14%.

11. When was the last ABC costing analysis done, and when will it be refreshed?

A: The last ABC costing analysis was done in 2008/2009 and this year it is our intention to review the principles behind it and to redo the analysis. In addition this year we will conduct comprehensive curbside and bale audits so that the input data in the ABC costing analysis is as accurate as we can make it.

12. Are curbside audits performed in conjunction with the municipalities? Does Stewardship Ontario audit the municipal reports?

A: Yes, in fact every year the data report from the municipalities undergoes a very rigorous audit process. Every year Stewardship Ontario conducts some curbside and bale audits, but every few years we do a very comprehensive curbside and bale audit. This year we plan to conduct comprehensive audits to ensure we have an up to date and accurate data baseline. The municipalities are always very cooperative and we use a third party to conduct the work.

13. Could you please explain the deficit recovery fee and how that impacts the fee rates?

A: There were three material categories for which the stewards' 2011 reports were substantially below Stewardship Ontario's forecasts (old corrugated cardboard, old box board, and "other plastics"). This was the first time in the life of the program that our predictions varied from stewards' reports and we wanted to understand why. Following a number of extensive audits of steward reports and in depth analysis of the data, we concluded that both the data and the stewards were right, but the variance was due to stewards' using calculators in the past.

The calculators were launched as a transitional measure to assist stewards in completing their reports when the program was new. They were developed with the assistance of industry representatives and were based on industry norms and averages. Accordingly, an individual steward's actual experience would be expected to vary somewhat from those norms and averages. The expectation was that, as the program matured, stewards would subsequently calculate reports based on their own data, packaging composition and sales patterns.

This process has taken somewhat longer than expected, and in 2010, adjustments required as a result of some stewards shifting from the calculators has had a significant impact on

Stewardship Ontario revenues for 2010 and revealed that the 2010 fee rate was not sufficient to generate the revenue need to cover program costs. This shortfall (approximately \$5 million) must be recovered in 2011 via the deficit recovery fee. Continuous improvement in steward data has always been encouraged and all stewards will benefit in the long run from the most accurate data possible.

14. *Were these reporting surprises apparent across all sectors?*

A: No, it primarily pertained to members of the retail community, for whom data calculation is most challenging.

15. *With regard to gable top, aseptic containers, and paper laminants, what steps are being taken to ensure accurate fee rates are set?*

A: We will be reviewing the fee setting methodology and that review will include looking at how we establish the material categories and aggregate and disaggregate those fees.

16. *Given that retail calculators have over-estimated some steward reports, how are we going to move away from generating fee deficits every year?*

A: We encourage stewards to calculate their data as accurately as possible, and the additional four months provided to calculate and verify data prior to reporting may help in this regard. Nevertheless, we may find similar adjustments to steward reporting going forward. Changes to the way in which steward invoices are calculated will enable Stewardship Ontario to make the necessary adjustments to fee rates in time so as not to generate deficits due to steward reporting. Most importantly, over time, reporting will become more accurate and the system will be more financially sound.