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Steward Information Session on Regulation 11/12

New MHSW Program Financing Requirements

Today's objectives

» Review changes to program financing requirements mandated by Minister's Regulation

» Understand impact of Regulation 11/12
- What does it mean for Stewardship Ontario?
- What does it mean for Stewards? What changes, what remains the same?

» Review MHSW Program and material specific performance and financial results
- Understanding deficits and surpluses since 2008

» Understand how a changing waste diversion landscape could impact EPR Programs
- Is the role of "Producers" in EPR being diminished?
- How can "Producers" protect their ability to operate programs autonomously in Ontario?

Regulation 11/12

What does the new Regulation require?

> Prescribes new methodology SO must use to finance the MHSW program

> Replaces the familiar unit/volume-based fee methodology common to stewardship programs across Canada

> Methodology applies to how SO recovers both ongoing operating costs as well as any accumulated deficits

> Share-of-cost calculation based on share-of-sales reported

Fees vs. share of costs

What's the difference?

> No difference in outcome

> WDA requires all programs to fully recover their costs and preserve nexus

> Difference is in execution and benefits

Fees

How do they work?

- Stewards pay on the basis of their sales
- Unit/volume-based fees are set on the basis of **estimates** of what will be sold into the marketplace and what SO expects to spend to manage materials to target
- If estimates produce a surplus—fees are adjusted downwards
- If estimates produce a deficit—fees are adjusted upwards
- Program is made whole *over a period of time*

Fees

The upside of fees

> Offer predictability to stewards who know their sales and know the fee rate

> All information is known to stewards in advance of reporting

> Offer transparency and validation in cases where these fees are passed along to consumer

Fees

The downside of fees

- The quality of estimates in the first few years of a program are based on a number of variables: sales into marketplace, consumer returns, stability of costs for waste management services
- Result = volatility in program financing
- Deficits/surpluses common: 7 of 9 materials in the MHSW program have deficits due to a variety of factors: collection volume, inadequate fee rates, higher than estimated costs
- Volatility impacts fee rates

Share of costs

How does this work?

- > Stewards are paying for actual costs incurred in each Q
- > Sales into marketplace used to determine proportionate share of each steward’s cost

Share of costs

The upside of shared-based cost recovery

> Program costs/revenues balanced each quarter
> No surprise fee hikes to cover accumulated deficits
> No surpluses that are difficult to justify to stakeholders

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Share of costs

The downside of share-based cost recovery

> Less predictable for stewards—especially in the short-term

> Unknown $$ obligation—sales reports used to generate a share of future obligation

> Costs will fluctuate from Q to Q based on volume of material managed and seasonality factors

> Not easily transparent

What does the regulation mean for stewards?

Key Changes

1. Stewards to be invoiced on actual operating costs every quarter beginning in Q2

2. Deficit share invoicing begins Q2 (for those materials with deficits)

3. Steward obligation no longer determined by unit/volume based fee rate

4. Stewardship Ontario will no longer publish a fee schedule.

How will Q costs be calculated?

Beginning in Q2

$$\frac{\text{Q1 Steward Reported Quantity}}{\text{Total Q1 Quantity Reported to SO}} \times \text{Q1 Actual Cost} = \text{Steward Payment Obligation in Q2}$$

How will stewards' deficit share be calculated?

- Regulation prescribes how material deficits incurred as at December 31, 2011 are to be recovered and the time period for doing so
  - Share calculation
  - Four equal installments May 15, 2012 – January 31, 2013
- SO seeking Board /WDO approval to extend payment terms to 12 equal quarterly installments

Calculating deficit share

Beginning in Q2

$$\frac{\text{Steward Quantity July 2008 – Dec 2011}}{\text{Total Quantity Reported to SO July 2008 – Dec 2011}} \times \text{Material Deficit} = \text{Total Steward Share of Material Deficits} \div 12$$

What stays the same?

- No changes to steward reporting experience
  - Reporting process, due dates, material definitions, record retention
- No cross-subsidization among materials
  - Stewards will only be assessed costs and deficits proportionate to their individual share
  - Stewards will be reimbursed their proportionate share of surplus as deficits are recovered from other materials
- Level playing field maintained
  - Compliance with on-time reporting will be enforced to ensure compliant stewards are not burdened

What stays the same?

» **Collection and recycling performance that tracks to targets**

> Meeting program performance goals is paramount

> Over 26,000 tonnes diverted in 2010 and 2011

» **Expanded accessibility for consumers**

> 85% of Ontarians have access to Orange Drop locations

> Over 1,000 new battery sites in 2011

> 87 municipal depots, 300+ collection events/yr 307 return-to-retail, 97 provincial parks, 450 auto DIY

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Our commitment to stewards

» Cost Containment

- > SO will continue to seek ways to contain costs while meeting program targets
- > Critical that industry retain the flexibility and autonomy to use procurement/incentive tools to achieve performance at *the lowest possible cost*

Our commitment to stewards

» Transparency & Accountability

- Annual diversion performance results & quarterly tracking to target
- Annual budget by material category & quarterly tracking to budget
- Direct link between Q invoices and actual Q material results
- Some information will be on your invoice—look for more on our Steward Portal
- Audited annual financial statements with clean audit opinion
- 2012—performance measures that will allow for comparisons across jurisdictions

A changing EPR landscape?

Government announcement that other changes are on the way

- Reviews of IFO incentive rates
- Reviews of budgets/expenditures by WDO
- Industry representation eliminated from WDO board as IFOs asked to pay for greater oversight

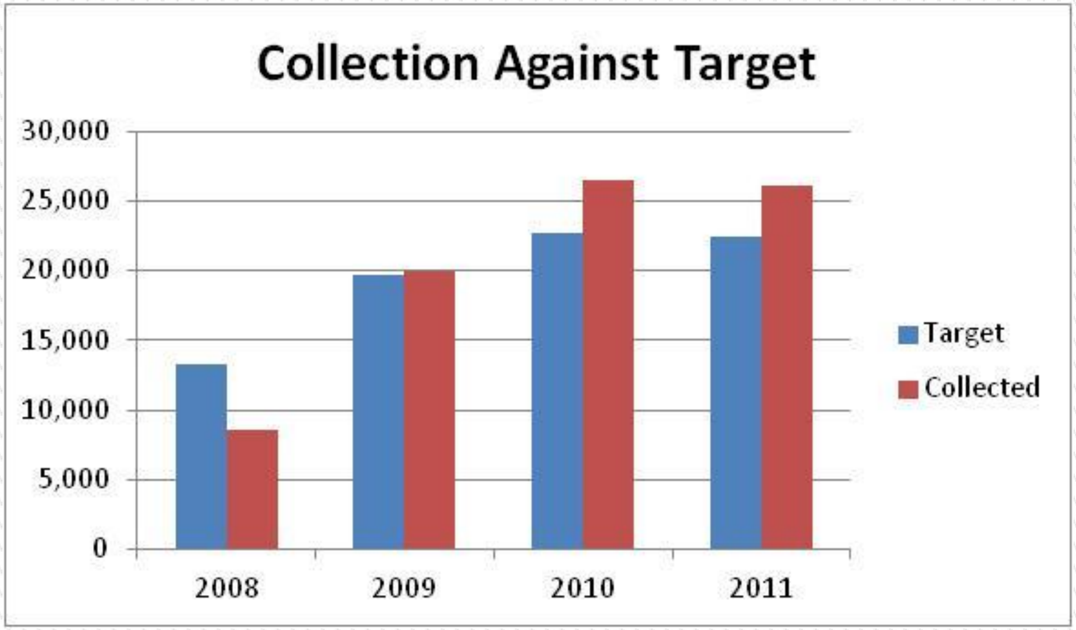
A changing EPR landscape?

Possible Impacts

- Cost containment compromised
- More involvement in operations – move away from industry-funded/industry-managed principles
- Lack of accountability from those who are imposing costs/burdens

MHSW Program

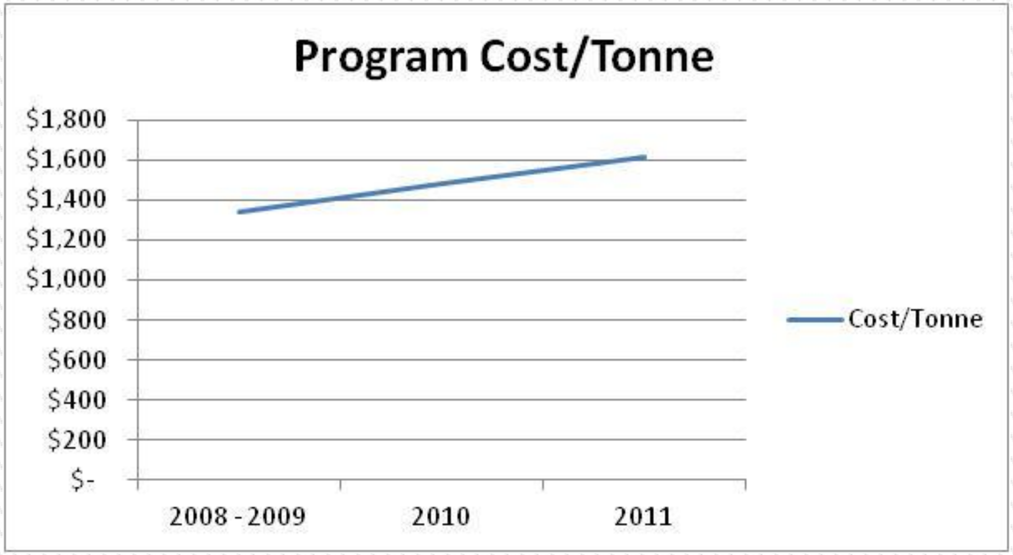
Collection Exceeds Target



» Total program collection has exceeded total target amount for the past three years. The majority of the 10 MHSW materials have also achieved or exceeded their targets each year.

» Overall tonnage targets declined by -1.3% in 2011 from a lower supplied to market due to the difficult economic times.

Cost per tonne up



- » 2010 was a ½ year of 100% EPR (added municipal collection costs) and HST compared to a full year in 2011.
- » Municipal collection costs for a full year are 23% of the total program cost.
- » HST (13%) accounts for almost 10% of the total program cost for a full year.
- » Cost/tonne has risen 20.2% since the start of the program, showing that actions taken to control and reduce costs, such as the incentive programs , have mitigated the impact of these two cost drivers.

Accumulated Deficit

Year	Revenue	Total Costs	Surplus (Deficit)	Accumulated Surplus (Deficit)
July 2008 - Dec 2009	37,772,041	38,345,347	-573,306	
2010	39,442,490	39,132,431	310,059	-263,247
2011	38,804,931	42,114,644	-3,309,713	-3,572,960

» As year-over-year targets increased and collection tonnage increased, the revenue provided by steward fees did not increase in step because fees have remained unchanged since July 1, 2010.

» Total costs rose 7.6% in 2011 over 2010, which shows cost controls, such as the incentive programs , working to mitigate the impact of full EPR and HST.

Questions

» **Any questions today?**

» Our Stewards Services Representatives are ready to answer your questions as the Regulation takes effect. Don't hesitate to call 1.888.288.3360