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**ORANGEDROP**

# MUNICIPAL DEPOT TRANSPORTATION & PROCESSING INCENTIVE PROGRAM HARMONIZATION

Webinar

March 7, 2013

# WELCOME TO THE WEBINAR

## ○ Webinar

This Webinar is for Transporters who collect Paints and Coatings, Single Use Dry Cell Batteries and Pressurized Containers from municipal depots in Ontario

## ○ Key Discussion Point for this Webinar:

1. Introduction, Background and Market Sounding Feedback
2. Zone Harmonization – New Zone Maps
3. Pre-Fuel Surcharge Rate changes
4. Applying a fuel surcharge
5. New Incentive Rates
6. Questions

## MDT&PIP HARMONIZATION

- As stated in our January 29, 2013 communication to Municipal Depot Transportation & Processing Incentive Program (MDT&PIP) stakeholders, we have undertaken this initiative to modify the program, similar to the harmonization of the Automotive Incentive Program (AIP)
- Modifications to the program include;
  - Harmonization of the zones, moving from the current six zones to nine new zones
  - Rebalance of the incentive rates to reflect the new zones
  - The introduction of a fuel surcharge rate

## BACKGROUND

- The Municipal Depot Transportation & Processing Incentive Program was launched January 1, 2012
- Since then, new processors have registered and been approved to manage the waste streams within MDT&PIP, as well, a processor exited the program
- Fuel prices continue to rise and are a key cost component to the transportation element of this program
- Stewardship Ontario is committed to continuous improvement, rate stability and predictability

# MARKET SOUNDING

Stewardship Ontario invited service providers to comment on the existing MDT&PIP program, the main issues raised were:

- Need compensation for rising fuel prices
  - This presentation will show how a fuel surcharge rate will be added to transportation incentive rates
- Travel distance and time – large urban center vs. rural center
  - New zone maps realign the province and recognize new processors who have entered the MDT&PIP program.
  - The number of zones increases from 6 to 9 providing a more precise view to specific areas of the province

## MARKET SOUNDING

Stewardship Ontario invited service providers to comment on the existing MDT&PIP program, the main issues raised were (cont'd):

- Concern or lack of clarity about potential changes to processing rates as a result of harmonization
  - Processing rates will not change as a result of MDT&PIP harmonization initiative
- Payment for Transportation of empty containers to collection sites for one time deliveries
  - Transportation and delivery of full and empty containers were part of the original cost model and included in the incentive rates



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# NEW MUNICIPAL DEPOT TRANSPORTATION & PROCESSING INCENTIVE PROGRAM ZONES HARMONIZATION

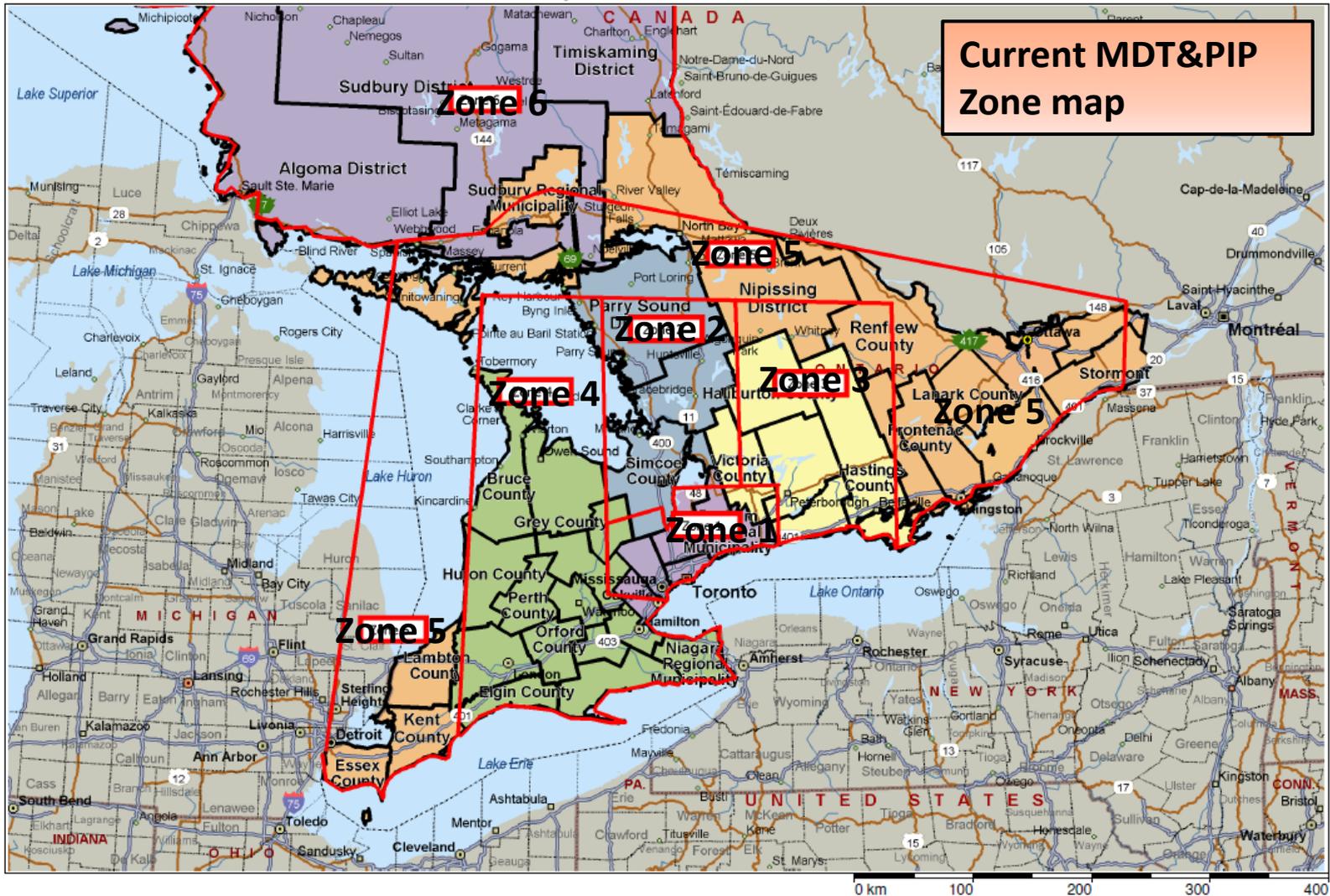
## NEW ZONE MAPS

Zone map changes provides Stewardship Ontario an opportunity to address several issues:

- Changing business needs
- Service Provider entrants / exit into the market place since the original zone map was developed
- New Processors are located in parts of the province where there were none previously
- Consistent zone map across all programs (Automotive Incentive Program and the Return to Retail program have converted)
- Easier administration for Service Providers
- ***The New MDT&PIP zone rates go into effect April 1, 2013***

# CURRENT ZONE MAP

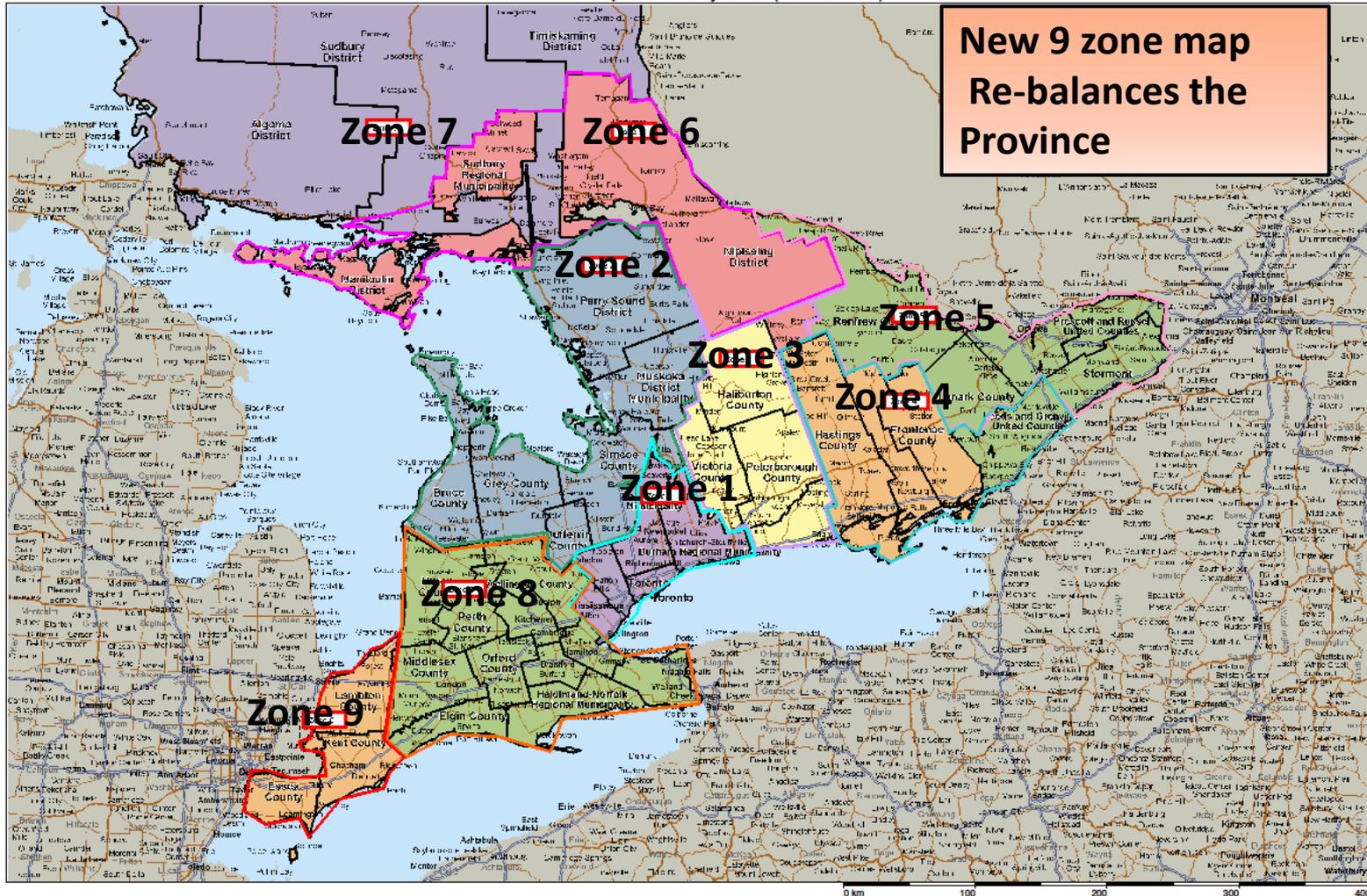
County Lines MDT & PIP Map



**Current MDT & PIP  
Zone map**

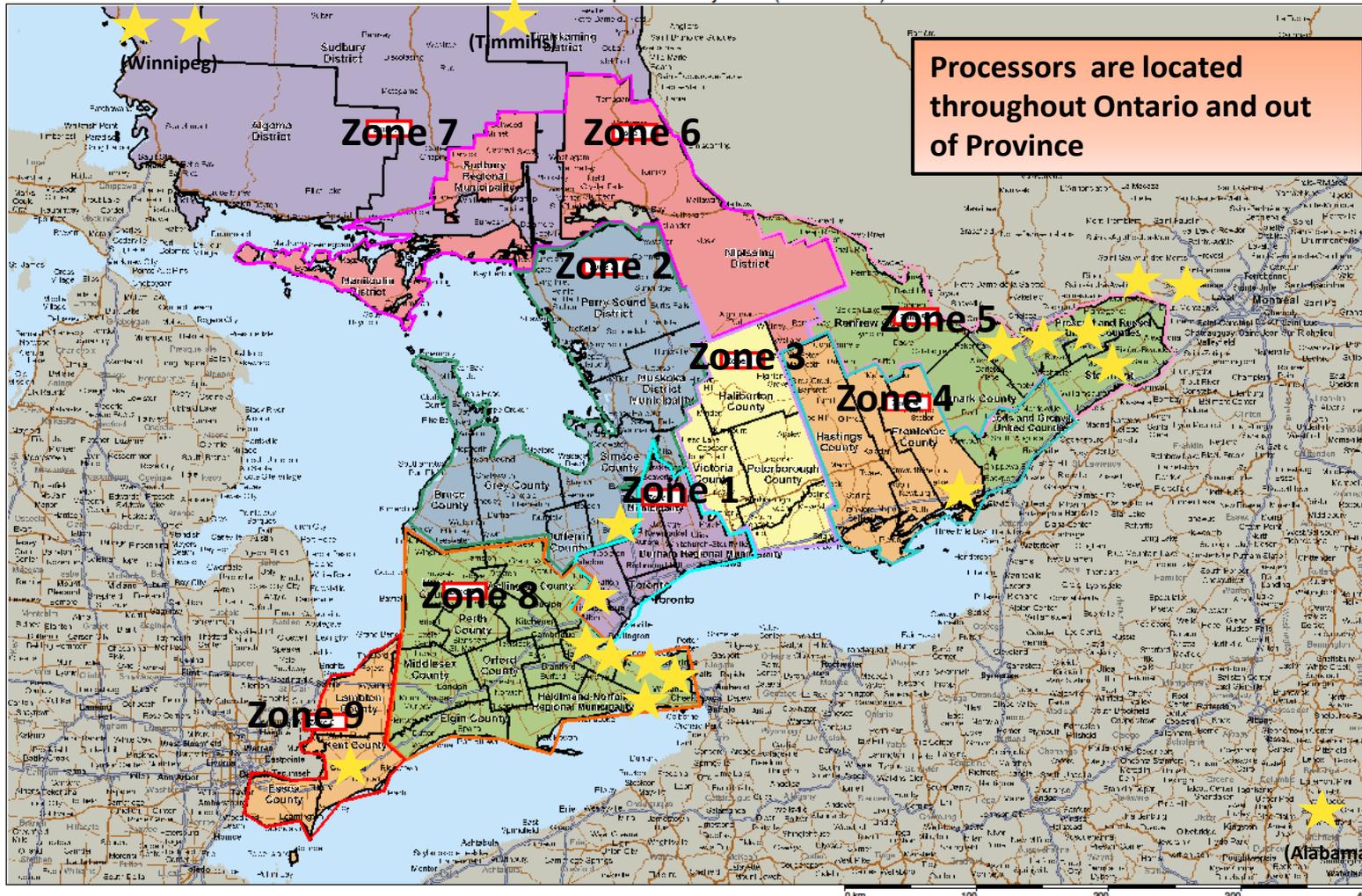
# NEW ZONE MAP

New Zones Map with County Lines (Normal View)



# NEW ZONE MAP – KEY ELEMENTS

New Zones Map with County Lines (Normal View)



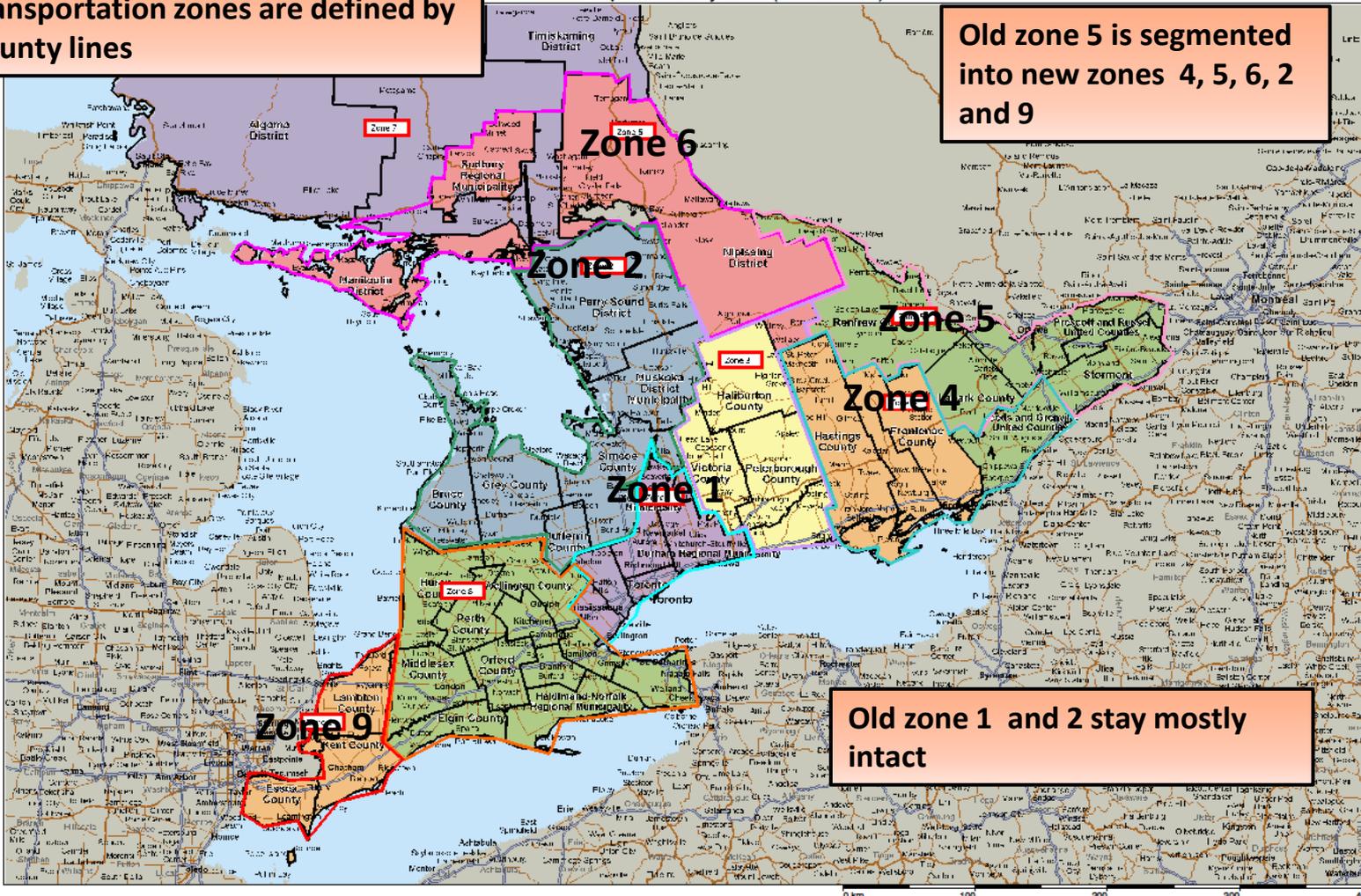
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# NEW ZONE MAP – KEY ELEMENTS

Transportation zones are defined by County lines

New Zones Map with County Lines (Normal View)

Old zone 5 is segmented into new zones 4, 5, 6, 2 and 9



Old zone 1 and 2 stay mostly intact

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# NEW ZONE MAP – KEY ELEMENTS

**New Zones 6 & 7 created for Northern Ontario**

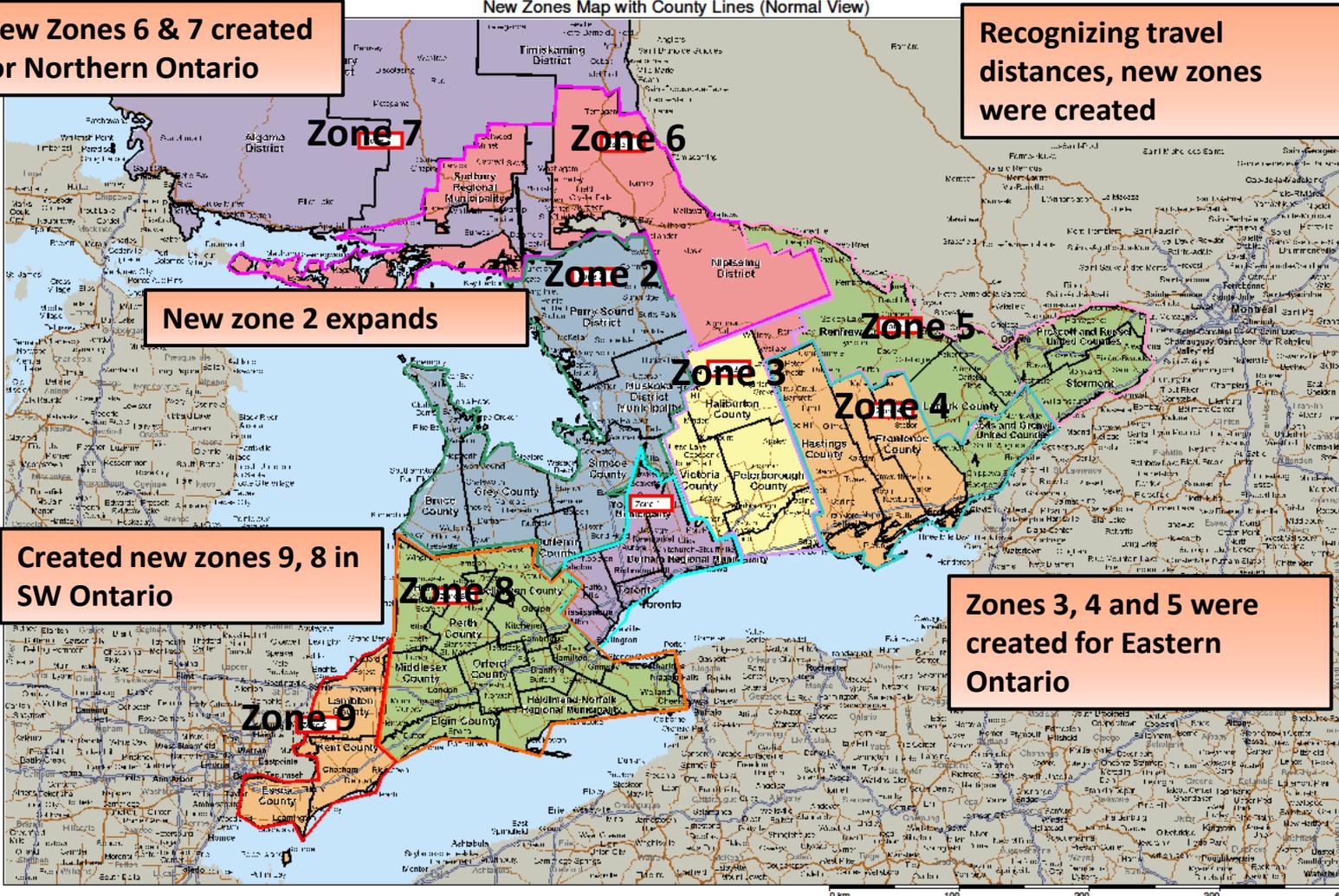
New Zones Map with County Lines (Normal View)

**Recognizing travel distances, new zones were created**

**New zone 2 expands**

**Created new zones 9, 8 in SW Ontario**

**Zones 3, 4 and 5 were created for Eastern Ontario**



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# NEW ZONE MAP – ZONE CONVERSION TABLE

## **Old Zone**

## **New Zone**

Zone 1	=	Zone 1
Zone 2	=	Zones 2
Zone 3	=	Zones 3, 4
Zone 4	=	Zones 2, 8
Zone 5	=	Zones 2, 4, 5, 6 and 9
Zone 6	=	Zones 7

# NEW ZONE MAP – ZONE/COUNTY TABLE

Zone 1	Durham Regional Municipality
	York Regional Municipality
	Toronto
	Peel Regional Municipality
	Halton Regional Municipality
Zone 2	Parry Sound District
	Muskoka District Municipality
	Simcoe County
	Dufferin County
	Grey County
	Bruce County
Zone 3	Haliburton County
	Victoria (Kawartha Lakes) County
	Peterborough County
	Northcumberland County
	* Lower portion of Nipissing District
Zone 4	Hastings County
	Lennox and Addington County
	Frontenac County
	Prince Edward County
	Leeds and Grenville United Counties
Zone 5	Renfrew County
	Ottawa-Carleton Regional Municipality
	Prescott and Russell United Counties
	Lanark County
	Stormont

Zone 6	Manitoulin District
	Nipissing District
	Sudbury Regional Municipality
	*Lower portion of Sudbury District
Zone 7	Kenora District
	Rainy River District
	Thunder Bay District
	Cochrane District
	Algoma District
	Sudbury District
Zone 8	Timiskaming District
	Huron County
	Wellington County
	Perth County
	Waterloo Regional Municipality
	Middlesex County
	Oxford County
	Brant County
	Hamilton-Wentworth Regional Municipality
	Elgin County
Haldimand-Norfolk Regional Municipality	
Zone 9	Niagara Regional Municipality
	Lambton County
	Kent County
	Essex County



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# NEW MUNICIPAL DEPOT TRANSPORTATION & PROCESSING INCENTIVE PROGRAM RATE CHANGES

# PRE-FUEL SURCHARGE INCENTIVE RATES METHODOLOGY

- Guiding Principles
- Rate Setting Methodology
- Review of Pre-Fuel Surcharge Rate Structures

# GUIDING PRINCIPLES

## ○ **Fairness**

- No arbitrary bias in the new zone and rate structure in favour of any Service Provider, material type or geographic area of the Province

## ○ **A Level Playing Field**

- The new zone and rate structure will not favour any Service Provider over any other, within any area of the Province within which any given Service Provider could logically expect to operate profitably

## ○ **Nexus**

- Maintain the nexus between steward fees and program cost by material, calibrated to achieve program plan collection and diversion targets by material

# PRE FUEL SURCHARGE RATE SETTING METHODOLOGY

## ○ Incentive Rates:

- The new Zone Map and Pre-Fuel Surcharge Transportation Incentive rate structures are based on very thorough analysis of MDT&PIP operating results;
- While striving for continuous improvement, the new zone and rate structures will create a much more logical, detailed and targeted payment structure, while avoiding additional administrative complexity for any party

# PRE-FUEL SURCHARGE RATE SETTING METHODOLOGY

- **Conversion of old zone incentive rates to new zone Pre-fuel surcharge incentive rates**
  - Each depot was assigned an old and new zone based on geographic location
  - Tonnages from each depot were then graphed into a 6 (zones) X 9 (zones) view of tonnages by material
  - Cost for new zones were then calculated based on existing incentive rates
  - Weighted average rates were then produced to show the existing rates in the new zones

# PRE-FUEL SURCHARGE RATE SETTING METHODOLOGY

## Example of 6 (zone) X 9 (zone)

Any Material													New Zones W old zone rate adjusted			
Current Zones	Zone 1		Zone 2		Zone 3		Zone 4		Zone 5		Zone 6			Grand Total KG's	Weight Share by New Zone	
New Zones	1	120,000	100.0%										120,000	50%	\$ 0.1500	
	2			1,500	100.0%			200	0.4%				1,700	1%	\$ 0.2176	
	3					16,000	76.2%						16,000	7%	\$ 0.2200	
	4					5,000	23.8%			1,500	13.6%		6,500	3%	\$ 0.3654	
	5									14,500	35.4%		14,500	6%	\$ 0.8500	
	6									14,000	34.1%		14,000	6%	\$ 0.8500	
	7											1,950	100%	1,950	1%	\$ 0.1200
	8							54,000	99.6%				54,000	23%	\$ 0.5000	
	9									11,000	26.8%		11,000	5%	\$ 0.8500	
<b>Grand Total</b>	120,000		1,500		21,000		54,200		41,000		1,950		<b>239,650</b>			
<b>Weight Share by Old Zone</b>	50%		1%		9%		23%		17%		1%					
<b>Cost per KG OLD zone</b>	\$ 0.15		\$ 0.18		\$ 0.22		\$ 0.50		\$ 0.85		\$ 1.20					
<b>Cost per OLD zone</b>	\$ 18,000		\$ 270		\$ 4,620		\$ 27,100		\$ 34,850		\$ 2,340					

The numbers represented in the above example are not real and are not reflective of any material, tonnage or rate.

# PRE-FUEL SURCHARGE TRANSPORTATION INCENTIVE RATES – BATTERIES (DRAFT)

<b>Batteries</b>		
<b>New Zones</b>	<b>New Zones With Restated Old Rates</b>	<b>New Zone Incentive Rates</b>
1	\$ 0.4112	\$ 0.4112
2	\$ 0.6661	\$ 0.7000
3	\$ 0.7530	\$ 0.7530
4	\$ 0.8830	\$ 0.8830
5	\$ 1.2933	\$ 1.2933
6	\$ 1.2933	\$ 1.2933
7	\$ 1.3333	\$ 1.3333
8	\$ 0.4492	\$ 0.4492
9	\$ 1.2933	\$ 1.2933

# PRE-FUEL SURCHARGE TRANSPORTATION INCENTIVE RATES – PAINTS AND COATINGS (DRAFT)

Paints and Coatings		
New Zones	New Zones With Restated Old Rates	New Zone Incentive Rates
1	\$ 0.1206	\$ 0.1206
2	\$ 0.2470	\$ 0.2600
3	\$ 0.2870	\$ 0.2870
4	\$ 0.4029	\$ 0.4029
5	\$ 0.5520	\$ 0.5520
6	\$ 0.5520	\$ 0.5520
7	\$ 1.3333	\$ 1.3333
8	\$ 0.1298	\$ 0.1298
9	\$ 0.5520	\$ 0.5520

# PRE-FUEL SURCHARGE TRANSPORTATION INCENTIVE RATES – REFILLABLE PRESSURIZED CONTAINERS (DRAFT)

<b>Refillable Pressurized Containers</b>		
<b>New Zones</b>	<b>New Zones With Restated Old Rates</b>	<b>New Zone Incentive Rates</b>
1	\$ 0.0200	\$ 0.0200
2	\$ 0.0459	\$ 0.0459
3	\$ 0.0631	\$ 0.0631
4	\$ 0.1472	\$ 0.1472
5	\$ 0.1472	\$ 0.1472
6	\$ 0.1472	\$ 0.1472
7	\$ 1.3333	\$ 1.3333
8	\$ 0.0298	\$ 0.0298
9	\$ 0.1472	\$ 0.1472

# PRE-FUEL SURCHARGE TRANSPORTATION INCENTIVE RATES – NON-REFILLABLE PRESSURIZED CONTAINERS (DRAFT)

Non-Refillable Pressurized Containers		
New Zones	New Zones With Restated Old Rates	New Zone Incentive Rates
1	\$ 0.2628	\$ 0.2628
2	\$ 0.5766	\$ 0.6000
3	\$ 0.8286	\$ 0.8286
4	\$ 1.1008	\$ 1.2900
5	\$ 1.2900	\$ 1.2900
6	\$ 1.2900	\$ 1.2900
7	\$ 1.3333	\$ 1.3333
8	\$ 0.3910	\$ 0.3910
9	\$ 1.2900	\$ 1.2900



# ORANGEDROP APPLYING A FUEL SURCHARGE



## FUEL SURCHARGE - RATIONALE

- Stewardship Ontario understands fuel prices are on the rise and are an uncertain component of your overall transportation costs
- By implementing a fuel surcharge Stewardship Ontario will begin sharing the risk of fuel price fluctuations with transportation service providers
- The fuel surcharge will be applied in addition to the transportation incentive rate as a separate payment amount

## FUEL SURCHARGE - CONSIDERATIONS

- A fuel surcharge will be applied to MDT&PIP transportation incentive rates effective April 1, 2013
- The freight rate average index we have chosen to follow is the industry recognized Freight Carriers Association of Canada (FCA) index
- The fuel surcharge rate is updated weekly and is based on service date
- MDT&PIP fuel surcharge methodology will follow the same methodology as AIP

## FUEL SURCHARGE - SETTING THE BASE TRANSPORTATION INCENTIVE

- The current MDT&PIP transportation incentives were effective as of January 1, 2012 and account for fuel prices at the time, based on service provider pricing to municipalities
- Fuel surcharges differ greatly from each transporter servicing each of the municipal depots
- According to the Freight Carriers Association, fuel surcharges have fluctuated from a low of 13.2%, for the week of July 2nd, 2012 to a high of 16.7% for the week of March 5<sup>th</sup> 2012
- The current fuel surcharge rate for the week of March 4<sup>th</sup> is 17.9%

## FUEL SURCHARGE - RATIONALE

### Removing the current Fuel Component from the Fuel Surcharge Rates

- Because the initial transportation rate (from the previous slides) already contains a fuel component, we need to first remove fuel from the pre-fuel surcharge incentive rate that already exists
- This will make the initial transportation rate by zone our new “**base transportation incentive rate**” with a fuel surcharge (that will fluctuate to current market rates) added to the overall rates
- Thus, the new rate will be:  
**Base Transportation Rate + Fuel Surcharge = Amount Paid**

## FUEL SURCHARGE - SETTING THE BASE TRANSPORTATION INCENTIVE

- Based on this information it was determined to use the same methodology in setting the new incentive base rate as the Automotive Incentive Program
- The base rate will be set by removing a fuel surcharge component from the existing rates
  - The point chosen was the week of July 2, 2012, the lowest FSC rate (13.2%) in 2012
- Backing out the fuel rate increases is a mathematical calculation:

$$\frac{\text{Pre - Fuel Surcharge Rate}}{1 + x} = \text{Base Transportation Incentive}$$

where 'x' is the Calculated Cost Increase in % at a determined point in time

## EXAMPLE

The following example will demonstrate how the fuel surcharge methodology will work:

### ○ Assumptions

- Use New zone 4 transportation incentive rate for Paints and Coatings – \$0.4029 per KG
- 720 KG's of paints and coatings were transported to the closest approved processor
- Use the current fuel surcharge rate for week of March 4 2013 of 17.9%

# EXAMPLE

- Under the current MDT&PIP (Pre-tax) amount paid is

<i>Base Rate Per KG</i>	x	<i>Amount of Material</i>	=	<i>Total Amount Paid - Pre tax</i>
\$ 0.4029	x	720 KG's	=	\$ 290.09

- The new transportation incentive rate PLUS fuel surcharge (Pre-tax) is calculated as follows

- New Zone 4 pre-fuel surcharge incentive rate divided by 13.2% (July 2, 2012 FCA fuel surcharge)

$$\frac{\$ 0.4029}{1 + 0.132} = \$0.3559 \text{ per KG}$$

4.1% Increase

<i>Base Rate (per KG)</i>	x	<i>Amount of Material</i>	=	<i>Amount Paid (Pre tax)</i>
\$ 0.3559	x	720 KG's	=	\$256.24
<i>Fuel Surcharge</i>	=	17.9%	=	<u>\$45.87</u>
<i>Total Amount Paid</i>			=	\$302.11

# NEW TRANSPORTATION INCENTIVE RATES

<b>Batteries: New Incentive Rates per KG</b>			
<b>Zone</b>	<b>Pre-Fuel Surcharge Rate</b>	<b>Transportation Incentive Rate</b>	
1	\$ 0.4112	\$ 0.3632	<b>+ % Fuel Surcharge</b>
2	\$ 0.7000	\$ 0.6184	
3	\$ 0.7530	\$ 0.6652	
4	\$ 0.8830	\$ 0.7800	
5	\$ 1.2933	\$ 1.1425	
6	\$ 1.2933	\$ 1.1425	
7	\$ 1.3333	\$ 1.1779	
8	\$ 0.4492	\$ 0.3968	
9	\$ 1.2933	\$ 1.1425	

# NEW TRANSPORTATION INCENTIVE RATES

Paints and Coatings: New Incentive Rates per KG			
Zone	Pre-Fuel Surcharge Rate	Transportation Incentive Rate	
1	\$ 0.1206	\$ 0.1066	<b>+ % Fuel Surcharge</b>
2	\$ 0.2600	\$ 0.2297	
3	\$ 0.2870	\$ 0.2535	
4	\$ 0.4029	\$ 0.3559	
5	\$ 0.5520	\$ 0.4876	
6	\$ 0.5520	\$ 0.4876	
7	\$ 1.3333	\$ 1.1779	
8	\$ 0.1298	\$ 0.1147	
9	\$ 0.5520	\$ 0.4876	

# NEW TRANSPORTATION INCENTIVE RATES

Refillable Pressurizer Containers: New Incentive Rates per KG			
Zone	Pre-Fuel Surcharge Rate	Transportation Incentive Rate	
1	\$ 0.0200	\$ 0.0177	<b>+ % Fuel Surcharge</b>
2	\$ 0.0459	\$ 0.0406	
3	\$ 0.0631	\$ 0.0558	
4	\$ 0.1472	\$ 0.1300	
5	\$ 0.1472	\$ 0.1300	
6	\$ 0.1472	\$ 0.1300	
7	\$ 1.3333	\$ 1.1779	
8	\$ 0.0298	\$ 0.0263	
9	\$ 0.1472	\$ 0.1300	

# NEW TRANSPORTATION INCENTIVE RATES

Non-Refillable Pressurizer Containers: New Incentive Rates per KG			
Zone	Pre-Fuel Surcharge Rate	Transportation Incentive Rate	
1	\$ 0.2628	\$ 0.2322	<b>+ % Fuel Surcharge</b>
2	\$ 0.6000	\$ 0.5300	
3	\$ 0.8286	\$ 0.7320	
4	\$ 1.2900	\$ 1.1396	
5	\$ 1.2900	\$ 1.1396	
6	\$ 1.2900	\$ 1.1396	
7	\$ 1.3333	\$ 1.1779	
8	\$ 0.3910	\$ 0.3454	
9	\$ 1.2900	\$ 1.1396	



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# QUESTIONS