

Questions and Answers from the True Up Webinar – April 9, 2013

Stewardship Ontario held an information webinar on April 9, 2013, on the MHSW annual true up process for 2012.

The true up recalculates stewards fees based on the total of all four quarters and applies credits or debits as necessary to ensure that on an annual basis each steward pays their proportionate share of costs regardless of the relationship between their quarterly sales curve and the program's quarterly costs.

Starting 2013, Stewardship Ontario will use the 2012 annual steward share assessment (SSA) and apply it for each of the four quarters of 2013, providing more predictability and stability for stewards. For example, if a steward's SSA for the whole year was 13 per cent in 2012, it is reasonable and likely that the same steward will be billed 13 per cent of the cost for each of the four quarters in 2013. A true up will still be run after the completion of four quarters (in Q1 2014) as the dynamics of the peer relationship in terms of a company's share of the materials put into market and exits and entrances to the program might change, but we hope this new approach will provide some more stability and predictability for stewards that up to now has been a challenge under Regulation 11/12.

Below is a record of the questions submitted during the webinar and emailed in afterwards, and the answers to those questions.

Question	Answer
How can a copy of the presentation be obtained?	The presentation and the webinar audio are available on the Stewardship Ontario website: http://www.stewardshipontario.ca/engagement/steward-engagement-2013/
A fee holiday and surplus for oil filter stewards was mentioned. Where can more information be obtained on this, and does a timeframe exist detailing when the oil filter true up will occur?"	An oil filter working group has been established to develop a communications plan about the oil filtersurplus. Oil filter stewards will be hearing more about this over the next month. The draw-down of the accumulated surplus will start this fall. Following the completion of the communications plan with the working group, made up of associations and some industry stewards, more information will be communicated to the whole oil filter steward community.
Does the true up mean that stewards that have paid too much over the year receive	Stewards with debits will be invoiced by April 30, and it is anticipated that the credits will be applied at the

<p>credit notes, while other stewards who have not paid enough, will be issued with debit notes at the end of the year? What is classed as the end of the year?</p>	<p>beginning of July. Slide 23 on the webinar presentation provides all the timing information.</p>
<p>Is the true up calculated by taking what was sold across-the-board and splitting it out among the stewards according to what they sold?</p>	<p>Yes. Stewardship Ontario calculates what each steward's share is over the four quarters and conducts a reconciliation to achieve a fair apportioning across the entire year. Slide 17 in the presentation provides more detail on how the apportioning occurs, although this slide uses a steward universe of two stewards for explanation purposes only, when in reality, the true up affects many more stewards.</p>
<p>Why isn't the total number of stewards participating in a particular material category indicated on the quarterly and annual true up SSA statement invoices?</p>	<p>The focus is on each steward's proportionate share, so whether there are five stewards, 50 stewards, or 500 stewards, it is the share of an individual steward to the whole, not the size of the pie of the number of stewards contributing to each material category that is relevant.</p>
<p>How can the steward get money from the distributor for the true up charges when the customer has left the distributor's place of business? The environmental handling charge for an item should be paid by the consumer that actually requires the product, not the producer, brand owner, or the distributor. This model has no way for the producer to anticipate actual environmental cost to include it on the invoice to the distributor who sells it to the retail product.</p>	<p>Reg. 11/12 changed the way in which stewards were billed based on a quarterly basis, where only the obligated steward can be billed. With the change that is now being made to apply an annual SSA, it increases steward's ability to budget and forecast and understand what their year will look like from a total cost picture. As we all become more familiar with this new model for billing cycles, stewards should find that they will be able to refine their numbers more and have a better understanding and anticipation of what their total cost picture will be.</p>
<p>Will the SSA for every quarter of 2012 remain the same for 2013?</p>	<p>Moving forward, we will take the 2012 annual SSA and apply it for each of the four quarters of 2013. When 2013 ends, a true up will be applied for 2013 based on the actual reporting. Therefore, if you end up with an SSA for Q1 in 2012 of 8%, then it grew to 13% for Q2, 17% for Q3, and went down to 14% for Q4, and you ended up with an annual SSA of 13% after the true up in 2012, what will happen for 2013 is that for each of the four quarters, you will be billed for 13% of the cost of each of those four quarters.</p> <p>When the 2013 year ends, all of 2013's data gets put into a pot, is recalculated, and a 2013 SSA is produced. The</p>

	<p>SSA could remain at 13%, or it could grow to 14%, or drop to 12%. It could be completely different based on the dynamics of the peer relationship, but with the introduction of this new approach to billing in 2013, we aim for the SSA to be as close to actual cost as possible. There will still be a true up statement at the end of 2013, just the same way as the one that's been run for 2012 on April 30, to reconcile any fluctuations throughout the year.</p>
<p>Is there a plan to provide cost breakdown for the year 2012 by category in about 7 or 10 major headings?</p>	<p>Each steward will see the results of the true up for each of their materials. Through the WeRecycle portal report for 2012, stewards have seen the cost breakdown by material management cost, common cost, and steward billing adjustments each quarter. These costs have been represented in graphs, similar to the examples contained in the webinar presentation, which will provide a more visual representation of the variabilities that affect quarterly costs – if a steward would like to see the graph of their material, they can request this information from werecycle@stewardshipontario.ca. Through the WeRecycle portal, stewards will see the true up results for each of their materials and a total new SSA.</p>
<p>Does this relate to tire recycling?</p>	<p>The true up discussed as part of this webinar relates to MHSW only. For tires and electronics, those stewardship organizations will provide information for their stewards on how they are managing their fees.</p>
<p>If a hypothetical steward has a number of voluntary reporters, when Stewardship Ontario does the annual true up will it include the true up at the reporter level as well or will it only be at the overall steward level? Without the reporter level, won't Stewardship Ontario be downloading work to the steward?</p>	<p>The true up is a reconciliation of total supply and total paid at the steward level. When a reporter reports, they are reporting on behalf of the steward, but not paying – it is the steward that pays. The reporter level detail will appear on your true up report.</p> <p>If there are further questions, or you don't see how each voluntary reporter has reported on your behalf in the report, please contact any one of our steward services representatives on 1-888-288-3360 or werecycle@stewardshipontario.ca and they can go through the invoice with you.</p>
<p>If a business terminated, how will the true up deficit be recovered from that steward? Or will it be left for other stewards to absorb</p>	<p>When the true up has been run, we will be able to take a look at the numbers and the scale of entrances and exits and will have a clearer idea of the scale of this issue. At</p>

<p>the deficit?</p>	<p>present, we cannot provide a definitive answer as we don't yet know the size or scale of entrances and exits, and what may or may not be the financial position of a terminated business.</p>
<p>As stewards we have no control over the costs associated with the program. Why can't a per unit fee be applied, which will greatly aid ensuring the cost is passed down the supply chain where necessary?</p>	<p>Regulation 11/12 does not allow us to do a per unit fee-based cost structure, meaning there is no way currently to answer stewards' needs around cost predictability as we are required to do a cost recovery structure under the regulation.</p> <p>However, the improvement that we are putting into place for 2013 (which is to use the 2012 annual SSA to calculate each quarterly 2013 SSA), allows for greater budgeting and predictability, which will help to address some of the inherent difficulties for stewards in understanding their costs. Going through the true up cycle a couple of times will also help in refining the budgets, the costs, and the steward supply.</p>
<p>How is Stewardship Ontario controlling costs to ensure stewards do not incur excess program costs?</p>	<p>Stewardship Ontario publishes its budget, which is approved by our Board of Directors, and is based on an annual operating plan that seeks to achieve target for the materials in terms of accessibility, collection tonnage, diversion tonnage, P&E and awareness goals, according to the program plan. Slides 9, 10, 12 and 13 contain information on the budgeted and un-budgeted cost components, and help to explain some of the cost dynamics.</p>
<p>It is not acceptable to budget for a deficit or credit situation. This is a very difficult sell within a company. What can be done to make this situation better?</p>	<p>The true up is a way to make Regulation 11/12 work fairly. If we do not do this exercise, we would not be proportioning annual share of the business across stewards, which would not reflect the reality and not be fair. With the Regulation being specific on quarterly cost recovery, it makes it difficult to fairly address the quarterly fluctuations. For 2013, we will have improved predictability in that you will have a constant share against the real costs for each quarter. To explain the next true up within your company, please note that it is based on how your company behaved in relationship to your peers within the group – for example, if you gained share, you would need to pay a little bit more; if you lost share, you get a little bit back - the true up should be an easier topic to address for the 2013 true up activity.</p>

<p>If there are five stewards selling the same product and we sold 34 and the other four stewards sold 466 of the same product, would we be responsible for a portion of 100 under this true up reconciliation?</p>	<p>So 34 units of 500 units represents 6.8%. Therefore, assuming all units have the same weight, steward A will pay 6.8% of the total costs on an annual basis after the true up. So your total for the year, not your individual quarters but your total for the year, in this example is 6.8%. That is your portion.</p>
<p>What is Stewardship Ontario doing to ensure all companies that should be stewards are actually reporting to spread out the cost?</p>	<p>Stewardship Ontario publishes a steward list that is accessible on the WeRecycle portal. We encourage stewards to view the list and let us know if their competitors are not participating. You can call in, write in, or email at any time and we follow up to ensure that everyone who is part of the obligated world for that material by that definition is reporting, and reporting accurately. Appropriate escalation procedures are in place to help us in the endeavor.</p>
<p>If a program is pulled out of MHSW would we see an increase in cost in the remaining programs?</p>	<p>Some costs, like common costs, have a 15% fixed to 85% variable component. So if the program loses any material out of a community of materials, a basket of goods, the other materials within that basket of goods have some fixed costs that they all need to cover, as well as their own proportionate share of costs within that basket of goods. Therefore, if any material exits, it does affect the other materials remaining. Obviously their material management costs would exit the program as well, but it's their contribution to the whole basket of goods, the fixed portion, that would need to be made up by the other materials.</p>
<p>Are fertilizers and pesticides part of this true up program? Looking at the Stewardship Ontario website they're listed as municipal collection programs. Will true ups occur in these categories?</p>	<p>Yes, the true up includes fertilizers and pesticides. It is all nine materials trued up against all nine material costs, with only two of them, oil filters and pressurized containers, set aside for different reasons, but those two materials set aside will also have true ups at a later point.</p>
<p>Does the regulation imply stewards must pay the costs on a quarterly basis? Is there an opportunity to report quarterly, yet pay on an annual basis?</p>	<p>Stewards must pay the costs on a quarterly basis. It is a quarterly cost recovery model requiring a quarterly cost payment under Regulation 11/12.</p>
<p>The reporting has been extremely complicated since being required to report in advance, i.e. the amounts that we report</p>	<p>A table on Slide 27 has been provided, which outlines the timing of the reporting. Time is needed in order to validate. Proxy reports are produced for those stewards</p>

<p>and are assessed on are not the quarter that has just been completed. Those numbers are used to forecast the next quarter. Now that we're doing this cost recovery, is there any possibility to put the reporting back to the actual amounts per quarter?</p>	<p>who have not reported on time. There are a lot of activities that occur between the deadline for reporting and using that information to create and join it up to the cost to create an amount payable for a quarter, and this is the reason why there is a delay. There are many things that occur behind the scenes for us to ensure that any errors identified during the validation stage are corrected, which result in a quarter time gap.</p>
<p>Is it possible to use my 2012 annual SSA against the Stewardship Ontario budget target as a predictor of my cost for the year, then use this to predict my recovery rate per unit?</p>	<p>Yes, the math should work to be able to apply that SSA against the budget, and then consider what the cost drivers would be and put in a risk component.</p>
<p>If a part has an environmental handling charge associated with it, a brand owner is required to attach an estimated cost to account for the fees, which will likely result in an increase overall for all products that have environmental handling charges on them.</p>	<p>Stewardship Ontario has no involvement in how stewards cover their costs, reclaim costs or pass costs on for fulfill their obligations to pay for the management of materials at the end of their useful life. These decisions are for stewards to make. Stewardship Ontario's focus is on using the money stewards pay to manage the materials they supply into the Ontario marketplace, to recycle those materials or safely dispose of them, ensuring as much waste as possible is diverted from landfill and waterways.</p>
<p>If a surplus for a specific program, such as batteries, was collected, how will this affect the true up?</p>	<p>Surpluses do not affect the true up. In the case of batteries, the surplus is kept separate and used to fund marketing campaigns to help batteries reach target</p>
<p>When will the actual methodology or rules for the true up be posted online?</p>	<p>The methodology of how the true up is calculated is contained in the presentation that was given as part of this webinar. The detail on total material management costs and steward share quarter by quarter and on an annual basis will be available on the WeRecycle portal for each steward following the issue of true up invoices, which will be by April 30.</p>
<p>How can we trust that the true up is truly distributed fairly across all stewards if information on other stewards cannot be provided?</p>	<p>Information on total tonnages supplied into market by stewards is available, but we cannot divulge confidential and sensitive sales data belonging to individual stewards.</p>